

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware

43-1128385

(State or other jurisdiction of incorporation) (I.R.S. Employer Identification No.)

663 Highway 60, P. O. Box 807, Monett, MO 65708
(Address of principal executive offices)

(Zip Code)

417-235-6652

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 1998
Common Stock, \$.01 par value	18,890,849

JACK HENRY & ASSOCIATES, INC.

CONTENTS

	Page No.
PART I. FINANCIAL INFORMATION	
Item I - Financial Statements	
Condensed Consolidated Balance Sheets - December 31, 1997, (Unaudited) and June 30, 1997	3-4
Condensed Consolidated Statements of Operations for the Quarter and Six Months Ended December 31, 1997 and 1996 (Unaudited)	5
Condensed Consolidated Statements of Cash	

Flows for the Six Months Ended December 31,
1997 and 1996 (Unaudited) 6

Notes to the Condensed Consolidated Financial
Statements 7-8

Item 2 - Management's Discussion and Analysis of
Results of Operations and Financial
Condition 8-10

Part II. OTHER INFORMATION

Item 2(c) Changes in Securities and use of Proceeds 10

Part I. Financial Information
Item 1. Financial Statements

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars, Except Share Data)

	December 31, 1997 (Unaudited)	June 30, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,748	\$ 7,948
Held-to-maturity securities	3,468	5,919
Receivables	16,897	22,703
Income taxes receivable	0	1,982
Prepaid expenses and other	4,530	4,177
Total current assets	\$45,643	\$42,729
Property and equipment, net	\$23,445	\$21,869
Other assets:		
Intangible assets, net of amortization	\$16,716	\$15,469
Computer software	2,119	1,226
Investments and other	1,091	776
Total other assets	\$19,926	\$17,471
Total assets	\$89,014	\$82,069

	December 31, 1997 (Unaudited)	June 30, 1997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,641	\$ 2,911
Accrued expenses	2,451	3,648
Accrued income taxes payable	954	0
Deferred revenue	17,106	20,680
Total current liabilities	\$25,152	\$27,239
Deferred income taxes	2,048	2,048

Total liabilities

\$27,200

\$29,287

Stockholders' equity:

Preferred stock - \$1.00 par value;
500,000 shares authorized;
none issued

-

-

Common stock - \$0.01 par value;
50,000,000 shares authorized;
18,867,215 outstanding @ 12/31/97
18,517,309 outstanding @ 06/30/97

\$ 189

\$ 185

Less Treasury Stock 15,410 shares

0

(293)

Additional paid-in capital

16,727

14,744

Retained earnings

44,898

38,146

Total stockholders' equity

\$61,814

\$52,782

Total liabilities and
stockholders' equity

\$89,014

\$82,069

The accompanying notes are an integral part of these consolidated financial statements.

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In Thousands, Except Per Share Data)

	Quarter Ended December 31,		Six Months Ended December 31,	
	1997	1996	1997	1996
Revenues:				
Software licensing & installation	\$ 7,024	\$ 5,388	\$13,146	\$11,221
Maintenance/support & service	8,709	6,730	17,218	13,007
Hardware sales & commissions	11,651	9,230	17,079	15,470
Total revenues	\$27,384	\$21,348	\$47,443	\$39,698
Cost of sales:				
Cost of hardware	7,425	6,399	10,820	10,717
Cost of services	6,318	4,775	11,741	8,800
Total cost of sales	\$13,743	\$11,174	\$22,561	\$19,517
Gross profit	\$13,641	\$10,174	\$24,882	\$20,181
	50%	48%	52%	51%
Operating expenses:				
Selling and marketing	3,030	2,147	5,202	4,349
Research and development	826	705	1,497	1,228
General and administrative	2,050	1,482	3,850	2,863
Total operating expenses	\$ 5,906	\$ 4,334	\$10,549	\$ 8,440
Operating income	\$ 7,735	\$ 5,840	\$14,333	\$11,741
Other income:				
Interest income	308	207	586	384
Other, net	95	55	206	129
Total other income	\$ 403	\$ 262	\$ 792	\$ 513
Income before income taxes	\$ 8,138	\$ 6,102	\$15,125	\$12,254
Provision for income taxes	3,065	2,324	5,625	4,673
Income from continuing operations	\$ 5,073	\$ 3,778	\$ 9,500	\$ 7,581
Income (loss) from discontinued operations	54	(150)	(207)	(150)
Net income	\$ 5,127	\$ 3,628	\$ 9,293	\$ 7,431
Basic earnings per share: *				
Income from continuing operations	\$.27	\$.21	\$.51	\$.42
Income (loss) from discontinued operations	.00	(.01)	(.01)	(.01)
Net income	\$.27	\$.20	\$.50	\$.41
Basic weighted average shares outstanding *	18,803	17,926	18,773	17,876
Diluted earnings per share: *				
Income from continuing operations	\$.26	\$.20	\$.49	\$.40

Income (loss) from discontinued operations	.00	(.01)	(.01)	(.01)
Net income	\$.26	\$.19	\$.48	\$.39
Diluted weighted average shares outstanding *	19,623	19,119	19,573	19,073

* All EPS and share data are calculated in accordance with FASB #128.

The accompanying notes are an integral part of these consolidated financial statements.

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)
(Unaudited)

	Six Months Ended December 31,	
	1997	1996
Cash flows - operating activities:		
Cash received from customers	\$49,635	\$44,235
Cash paid to suppliers and employees	(31,221)	(27,520)
Interest and dividends received, net	653	363
Income taxes paid, net	(2,728)	(4,519)
Other, net	(6)	1
Net cash flow provided by operating activities	\$16,333	\$12,560
Cash flows from discontinued operations	(522)	(283)
Cash flows from investing activities:		
Proceeds on sale of property & equipment	\$ 56	\$ 7
Capital expenditures	(2,705)	(4,941)
Short-term investment activity, net	2,381	(4,012)
Long-term investment activity, net	-	2
Computer software development	(63)	(85)
Acquisition costs, net	(842)	(314)
Net cash used in investing activities	\$(1,173)	\$(9,343)
Cash flows from financing activities:		
Proceeds from issuance of common stock upon exercise of stock options	\$ 285	\$ 929
Proceeds from sale of common stock	82	-
Dividends paid	(2,066)	(1,673)
Principle payments on notes payable	(139)	(131)
Purchase of treasury stock	-	(1,454)
Net cash used in financing activities	\$(1,838)	\$(2,329)
Net increase in cash	\$12,800	\$ 605
Cash at beginning of period	7,948	4,952
Cash at end of period	\$20,748	\$ 5,557

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

NCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

Description of the Company - Jack Henry & Associates, Inc. ("JHA" or the "Company") is a computer software company which has developed several banking software systems. It markets those systems to financial institutions throughout the United States along with the computer equipment (hardware) and provides the conversion and software services necessary for a financial institution to install a JHA software system. It also provides continuing maintenance and support services to customers using the system. All of these related activities are considered a single business segment.

Consolidation - The consolidated financial statements include the accounts of JHA and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Other Significant Accounting Policies - The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended June 30, 1997.

2. Interim Financial Statements

The accompanying condensed financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and in accordance with generally accepted accounting principles applicable to interim financial statements, and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the year ended June 30, 1997, which are included in its Form 10-K.

In the opinion of management of the Company, the accompanying condensed financial statements reflect all adjustments necessary (consisting solely of normal recurring adjustments) to present fairly the financial position of the Company as of December 31, 1997, and the results of its operations and its cash flows for the quarter and six-month periods then ended.

The results of operations for the periods ended December 31, 1997, are not necessarily indicative of the results to be expected for the entire year.

3. Additional Interim Footnote Information

The following additional information is provided to update the notes to the Company's annual financial statements for developments during the quarter ended December 31, 1997:

Acquisition of Vertex, Inc. - December 12, 1997: Vertex, acquired for \$3 million in cash and JKHY stock, is a leading vendor of teller systems to community banks, primarily in the southeastern United States. Systems are AS/400 based and are already integrated with JKHY core application systems. This acquisition is accounted for as a purchase and results of its operations from the date of acquisition have been included in the Company's results of operations.

Effective with the periods ended December 31, 1997, the Company adopted FASB #128 for reporting all its earnings per share calculations. Appropriate prior period share and per share data have been adjusted to be reported consistent with the current period.

4. Income Per Share Information

Earnings per common share are computed by dividing income by the basic and diluted (as required by FASB #128) weighted average number of shares of common stock and dilutive common stock equivalents outstanding for the quarter and six month periods ended December 31, 1997 and 1996.

Item 2. - Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Background and Overview

Jack Henry & Associates, Inc. ("JHA" or the "Company"), is a leading provider of integrated computer systems that perform data processing (available for in-

house or service bureau installations) for banks and related financial institutions. The Company was founded in 1976. Its proprietary applications software, which operates on IBM computers, is offered under two systems: CIF 20/20 , typically for banks with less than \$300 million in assets, and the Silverlake System , for banks with assets up to \$10 billion. Domestically, JHA frequently sells hardware with its software products. It also provides customer support and related services. The Company's software systems have been installed at over 1480 banks and financial institutions.

Year 2000

The Company has established a Year 2000 (Y2K) Committee. This Committee has prepared a documented, systematic approach (the Y2K Plan) to review all products and internal systems for Y2K compliance. The Company's Board of Directors have reviewed and approved the Plan as required by the banking regulators of all service bureau providers. The Company believes the products it currently sells to be Y2K ready and that the majority, if not all, of its internal systems will be Y2K ready by December 31, 1998. The estimated cost of the above efforts is not reasonably determinable at the current time and is not expected to be material to the Company's financials.

A detailed discussion of the major components of the results of operations for the quarter and the six months ended December 31, 1997, as compared to the same periods in the previous year follows.

Revenues

Revenues increased 28% to \$27,384,000 in the quarter ended December 31, 1997. The Company's non-hardware products and services (higher margin sales) increased 30% over last year.

Six month revenues this year were \$47,443,000, up 20% over the last year's corresponding period. Software licensing and installation increased 17%. Maintenance, support and service revenues increased 32%. Hardware sales were up 10% over last year's quarter.

The backlog of sales at December 31, 1997, was \$40,294,000. Backlog at January 31, 1998 was \$40,540,000.

Cost of Sales

The 23% increase in cost of sales for the second quarter of FY '98 is relatively consistent with the increase in revenues. A portion of the increase results from the increase in hardware revenues and the related increase in cost of hardware sales. Cost of services increased 32% primarily due to growth and future growth expected in the Company's core business, slightly more than the 30% increase in non-hardware revenues.

Cost of sales increased 16% for the first six months of fiscal '98, relatively consistent with the 20% increase in revenues. Cost of hardware increased 1%,

- 1 CIF 20/20 is a trademark of Jack Henry & Associates, Inc.
- 2 Silverlake System is a registered trademark of Jack Henry & Associates, Inc.

less than the 10% increase in hardware revenue. The most significant factor contributing to this variation related to a large one-time sale of hardware last year on which the Company had a low profit margin. Cost of services increased 33% compared to a 25% increase in non-hardware revenues for same reasons as the second quarter.

Gross Profit

Gross profit increased to \$13,641,000 in the second quarter ended December 31, 1997, a 34% increase over last year. The gross margin percentage was 50% of sales compared to 48% last year.

The six month gross profit this year was up 23% at \$24,882,000. The gross margin percentage for the first six months was 52%, similar to last year's rate of 51%.

Operating Expenses

Total operating expenses increased 36% in the quarter compared to last year's period. This is slightly more than the gross profit increased of 34%. Selling expenses increased 41% while research and development expenses increased 17%. General and administrative expenses increased by 38%.

The \$10,549,000 in the first six months of fiscal '98 for operating expenses was a 25% increase. This is relatively consistent with the 23% increase in gross profits.

Other Income and Expense

Other income for the quarter ended December 31, 1997, was up 54% when compared to the same period last year. This results primarily from increased interest income because the Company had more cash invested during the period. The year-to-date 54% increase is due to the same reasons.

Net Income

Net income from continuing operations for the second quarter was \$5,073,000, or \$.26 per share, an increase of 30%, compared to \$3,778,000, or \$.20 per share in the same period last year.

Net income from continuing operations for the six months ended December 31, 1997 was \$9,500,000, or \$.49 per share (up 23%), compared to \$7,581,000, or \$.40 per share.

The per share data are the diluted amounts required by FASB 128. Appropriate share and per share data have been revised to be consistent with the current year presentation.

FINANCIAL CONDITION

Liquidity

The Company's cash and cash equivalents and investments increased to \$24,216,000 at December 31, 1997, up from \$13,867,000 at June 30, 1997.

JHA has available credit lines totaling \$4,000,000, although the Company expects their use to be minimal during FY '98. The Company currently has no short-term or long-term debt obligations.

Capital Requirements and Resources

JHA generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$2,705,000 for the six months ended December 31, 1997, were made for expansion of its facilities and additional equipment. These were funded from cash generated by operations. The consolidated capital expenditures of JHA could exceed \$6,000,000 for FY '98.

The Company paid a \$.055 per share cash dividend on December 9, 1997 to stockholders of record November 18, 1997 which was funded from working capital. In addition, the Company's Board of Directors, subsequent to December 31, 1997, declared a quarterly cash dividend of \$.065 per share on its common stock payable March 12, 1998 to stockholders of record on February 19, 1998. This will be funded out of working capital.

CONCLUSION

JHA's results of operations and its financial position continued to be quite favorable during the quarter ended December 31, 1997. This reflects the continuing attitude of cooperation and commitment by each employee, management's ongoing cost control efforts and the Company's commitment to deliver top quality products and services to the markets it serves.

PART II. OTHER INFORMATION

Item 2(c). Changes in Securities and Use of Proceeds

On December 12, 1997, the Company issued 76,200 shares of fully paid and non-assessable JHA common stock, valued at approximately \$1,905,000 plus \$1,095,000 in cash to the shareholders of Vertex, Inc. (Vertex), as total consideration for a transaction whereby all of the outstanding capital stock of Vertex was acquired by the Company. These shares of the Company's common stock were issued in an unregistered, non-public transaction in which no underwriters participated. These shares were issued under the exemption from registration provided by Section 4(2) of the Securities Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on behalf by the undersigned thereunto duly authorized.

JACK HENRY & ASSOCIATES, INC.

Date: February 13, 1998

/s/ Michael E. Henry
Michael E. Henry
Chairman of the Board and
Chief Executive Officer

Date: February 13, 1998

/s/ Terry W. Thompson
Terry W. Thompson
Vice President and
Chief Financial Officer

3-MOS

JUN-30-1998

DEC-31-1997

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27384

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