Jack Henry & Associates Fiscal 2007 First Quarter

Operating Results

"During our first fiscal quarter of 2007, we continued to experience the strong demand for our support and service offerings, which is reflected by a solid increase in every component within this revenue line compared to the same quarter a year ago," stated Tony Wormington, President. "Also, during the quarter we continued to experience increasing demand for the products we market under our ProfitStars brand to non-core customers, which had a positive impact on both our revenue and earnings for the quarter compared to the prior year."

License revenue decreased 8% to $15.5 million, or 10% of first quarter total revenue, compared to $16.9 million, or 12% of first quarter total revenue a year ago. Growth of implementation services, in-house support fees, outsourcing, and ATM/Debit card switch fees and electronic payments contributed to the 16% increase in support and service revenue which expanded to $115.6 million in the first quarter of fiscal 2006 from $99.4 million for the same period a year ago. Support and service revenue grew to 77% of fiscal 2006 first quarter revenue from 73% of revenue last year. Hardware sales in the first quarter of fiscal 2007 decreased 6% to $19.5 million, or 13% of total revenue in the first quarter, from $20.7 million, or 15% of total revenue in the prior year's quarter.

Cost of sales for the first quarter increased 9%, from $80.4 million for the three months ended September 30, 2005 to $87.3 million for the same period in the current fiscal year. Gross profit in the current year first quarter increased 12% to $63.3 million, representing a 42% gross margin, compared to $56.6 million, or a 41% gross margin, last year. Cost of sales increased primarily due to additional headcount, product costs and processing fees.

Gross margin on license revenue for the first quarter of fiscal 2007 was 96% compared to 95% a year ago for the same period and is primarily due to a decrease in the amount of third party software delivered during the quarter. Support and service gross margins improved to 37% in the first quarter of fiscal 2007 from 35% a year ago due to continued leveraging of resources. Hardware gross margins were also higher for the first quarter at 30% compared to 26% for the same quarter last year primarily due to the sales mix of hardware sold, and vendor rebates.

Operating expenses increased 17% to $30.4 million for the first quarter of fiscal 2007 compared to $26.0 million for the same quarter a year ago primarily due to increased headcount and related expenses. Selling and marketing expenses rose 5% in the first quarter to $12.0 million from $11.4 million in the prior year's quarter. Selling and marketing expenses were 8% of revenue for both years. Research and development expenses increased 26% to $8.5 million or 6% of total revenue for the first quarter of fiscal 2007, from $6.7 million or 5% of total revenue for the same quarter of fiscal 2006. General and administrative costs increased 27% to $9.9 million, or 7% of revenue, in the first quarter of fiscal year 2007, from $7.8 million, or 6% of revenue for the same quarter a year ago. The increase in general and administrative costs is largely attributable to the costs related to the new accounting software system that was implemented during fiscal 2006, for increased personnel costs, increased amortization and maintenance expenses. In addition, certain salaries were being capitalized as part of the development of the new system in the first quarter of fiscal 2006 that are currently being expensed.

Operating income grew 8% to $32.9 million compared to $30.6 million a year ago. Operating income was 22% of revenue in both fiscal years. Provision for income taxes in the first quarter of fiscal 2007 was 37.5% compared to 37.0% in the same period a year ago due to the termination of the Research and Experimentation Tax Credit. First quarter net income totaled $21.4 million, or $0.23 per diluted share, compared to $19.4 million, or $0.21 per diluted share in the first quarter of fiscal 2006.

For the first quarter of 2007, the bank systems and services segment revenue increased 12% to $124.7 million, with a gross margin of 43% from $111.4 million in revenue with a gross margin of 42% in the first quarter in fiscal 2006. The credit union systems and services segment revenue increased 1% to $25.9 million with a gross margin of 35% for the first quarter of 2007 from revenue of $25.6 million with gross margin of 37% in the same quarter a year ago. The decrease in gross margin for the credit union segment is due to a decrease in license revenue from the prior year's quarter. License revenue has substantially higher margins than other revenue components. "Gross margin continues to remain solid and actually improved for almost every line item of revenue, however, the sales mix of license, services and hardware caused the total gross margin in the credit union segment to drop slightly compared to a year ago," stated Kevin Williams, CFO.

Balance Sheet, Cash Flow, and Backlog Review

Cash, cash equivalents, and investments decreased to $51.6 million from $56.6 million compared to September 30, 2005. During the first quarter, the revolving debt facility of $50.0 million was paid in full with cash from operations. Trade receivables increased $29.9 million, or 34% to $118.8 million compared to September 30, 2005 at $88.9 million. The increase is primarily due to billings for deposits in conjunction with the continuing growth in contracting activities, particularly those with larger financial institutions.

Deferred revenue increased 14% to $155.9 million at September 30, 2006 compared to a year ago, due to increased prepaid in-house maintenance and deposits. Stockholders' equity grew 8% to $575.8 million at September 30, 2006, from $530.9 million at September 30, 2005, which this increase is primarily due to net income offset by the purchase of treasury shares during the previous twelve months.

Cash flow from operations decreased to $61.5 million for the first quarter of fiscal 2007 from $107.9 million for the same quarter in fiscal 2006. The $46.4 million decrease consists primarily of a decrease in the change in receivables of $59.7 million. This decrease is due to a change in the timing of billings for annual software maintenance. The effects of the decrease in the change in receivables were partially offset by a $2.0 million increase in net income, a $1.3 million increase in depreciation and amortization, plus a combined increase of $0.5 million in deferred income taxes, the loss on disposal of property and equipment and stock-based compensation. Additionally, the increase of $3.0 million in accrued income taxes, the combined $2.7 million change in prepaid, accrued expenses and accounts payable and the change in deferred revenues of $3.8 million offset the decrease in the change in receivables.

Net cash used in investing activities in the current quarter was $14.4 million and primarily included capital expenditures of $8.1 million and capitalized software development of $4.8 million. In the first quarter in fiscal 2006, net cash used in investing activities of $12.0 million and primarily included capital expenditures of $8.0 million and capitalized software development of $4.0 million.

Net cash from financing activities used cash of $71.4 million and included repayment of a credit facility of $50.0 million, payment of dividends of $5.0 million and the purchase of treasury stock of $19.8 million. Cash used was offset by proceeds of $3.4 million from the exercise of stock options, excess tax benefits from stock-based compensation and sale of common stock. In the first quarter of fiscal 2006, cash used in financing activities was $51.9 million and included repayment of a credit facility of $45.0 million, payment of dividends of $4.1 million and the purchase of treasury stock of $6.3 million. This cash used was offset by proceeds of $3.5 million from the exercise of stock options and sale of common stock.

Backlog, which is a measure of future business and revenue, increased 8% compared to year-ago levels to $222.4 million ($69.7 million in-house and $152.7 million outsourcing) at September 30, 2006. Backlog at September 30, 2005, was $205.8 million ($63.4 million in-house and $142.4 million outsourcing) and at June 30, 2006, it was $221.9 million ($66.3 million in-house and $155.6 million outsourcing).

Condensed Consolidated Statements of Income
(In Thousands, Except Per Share Data - unaudited)

	Three Months Ended September 30, 2006	2005	% Change
REVENUE			
License	$15,539	$16,908	-8%
Support and service	115,577	99,401	16%
Hardware	19,499	20,674	-6%
Total	150,615	136,983	10%
COST OF SALES			
Cost of license	556	851	-35%
Cost of support and service	73,050	64,237	14%
Cost of hardware	13,702	15,340	-11%
Total	87,308	80,428	9%
GROSS PROFIT	63,307	56,555	12%
Gross Profit Margin	42%	41%	
OPERATING EXPENSES			
Selling and marketing	11,966	11,440	5%
Research and development	8,516	6,749	26%
General and administrative	9,906	7,805	27%
Total	30,388	25,994	17%
OPERATING INCOME	32,919	30,561	8%
INTEREST INCOME (EXPENSE)			
Interest income	1,556	443	251%
Interest expense	(216)	(175)	23%
Total	1,340	268	400%
INCOME BEFORE INCOME TAXES	34,259	30,829	11%
PROVISION FOR INCOME TAXES	12,847	11,407	13%
NET INCOME	$21,412	$19,422	10%
Diluted net income per share	$0.23	$0.21	
Diluted weighted avg shares outstanding	92,893	93,998	

Consolidated Balance Sheet Highlights (In Thousands-unaudited)	Sept 30, 2006	2005	% Change
Cash, cash equivalents and investments	$51,565	$56,550	-9%
Receivables	118,768	88,908	34%
TOTAL ASSETS	821,104	738,306	11%
Accounts payable and accrued expenses	$39,054	$31,418	24%
Deferred revenue	155,894	137,310	14%
STOCKHOLDERS' EQUITY	575,766	530,913	8%

Source: Jack Henry & Associates, Inc.