

HENRY JACK & ASSOCIATES INC

Form 10-K

August 29, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

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

**(Mark One)**

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

For the fiscal year ended June 30, 2011

**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 AND ASSOCIATES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

43-1128385

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

663 Highway 60, P.O. Box 807, Monett, MO 65708

(Address of principal executive offices)

Registrant's telephone number, including area code: (417) 235-6652

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>      | <u>Name of each exchange on which<br/>registered</u> |
|---------------------------------|--|
| Common Stock (\$0.01 par value) | NASDAQ Global Select Market                          |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes  No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

As of August 22, 2011, the Registrant had 86,397,007 shares of Common Stock outstanding (\$0.01 par value). On December 31, 2010, the aggregate market value of the Common Stock held by persons other than those who may be deemed affiliates of Registrant was \$2,363,957,956 (based on the average of the reported high and low sales prices on NASDAQ on December 31, 2010).

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Notice of Annual Meeting of Stockholders and Proxy Statement for its 2011 Annual Meeting of Stockholders (the "Proxy Statement"), to the Table of Contents below, are incorporated by reference into Part II, Item 5 and into Part III of this Report.

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In this report, all references to JHA, the Company, we, us, and our, refer to Jack Henry & Associates, Inc., consolidated subsidiaries.

## FORWARD LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including without limitation, in Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled Risk Factors (Part I, Item 1A of this Form 10-K). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

## PART I

### ITEM 1. BUSINESS

Jack Henry & Associates, Inc. was founded in 1976 as a provider of core information processing solutions for community banks. Today, the Company's extensive array of products and services includes processing transactions, automating business processes, and managing information for more than 11,300 financial institutions and diverse corporate entities.

JHA provides its products and services through four marketed brands:

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**Jack Henry Banking** is a leading provider of integrated data processing systems to nearly 1,400 banks ranging from de novo or start-up institutions to mid-tier banks with assets of up to \$30 billion. Our banking solutions support both in-house and outsourced operating environments with three functionally distinct core processing platforms and more than 100 integrated complementary solutions.

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**Symitar** is a leading provider of core data processing solutions for credit unions of all sizes, with nearly 750 credit union customers. Symitar markets two functionally distinct core processing platforms and more than 50 integrated complementary solutions that support both in-house and outsourced operating environments.

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**ProfitStars** is a leading provider of highly specialized products and services to financial institutions that are primarily not core customers of the Company. ProfitStars offers solutions for generating revenue and growth opportunities, increasing security and mitigating operational risks, and controlling operating costs, that can be used with a wide



variety of information technology platforms and operating environments. ProfitStars products and services enhance the performance of financial services organizations of all asset sizes and charters, and diverse corporate entities with nearly 8,000 domestic and international customers.

§

**iPay Technologies** is a leading provider of electronic bill pay services. iPay Technologies bill pay engine integrates with online banking platforms and provides individuals and small businesses with bill payment solutions. Through strategic partnerships with more than 50 providers of information processing and online banking solutions, iPay's electronic payments platform is supporting approximately 3,700 financial institutions.

Our products and services enable our customers to implement technology solutions that can be tailored to support their unique growth, service, operational, and performance goals. Our solutions also enable financial institutions to offer the high-demand products and services required to compete more successfully, and to capitalize on evolving trends shaping the financial services industry.

We are committed to meet and exceed our customers' service-related expectations. We measure and monitor customer satisfaction using formal annual surveys and online surveys initiated each day by routine support requests. The results of this extensive survey process confirm that our service consistently exceeds our customers' expectations and generates excellent customer retention rates.

We also focus on establishing long-term customer relationships, continually expanding and strengthening those relationships with cross sales of additional products and services, earning new traditional and nontraditional clients, and ensuring each product offering is highly competitive.

We have three primary revenue sources:

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Software license fees paid by customers implementing our software solutions in-house;

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Ongoing outsourcing fees paid by customers that outsource their information processing to us, recurring transaction processing fees, annual maintenance and support fees, and service fees including software implementation; and

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Hardware sales that include all non-software products that we re-market in order to support our software systems.

JHA's gross revenue has grown from \$666.5 million in fiscal 2007 to \$966.9 million in fiscal 2011, representing a compound annual growth rate during this five-year period of 8 percent. Net income from continuing operations has grown from \$105.6 million to \$137.5 million during this same five-year period, representing a compound annual growth rate of 5 percent. Information regarding the classification of our business into separate segments serving the banking and credit union industries is set forth in Note 13 to the Consolidated Financial Statements (see Item 8).

JHA's progress and performance have been guided by the focused work ethic and fundamental ideals fostered by the Company's founders three decades ago:

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Do the right thing,

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Do whatever it takes, and

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Have fun.

We recognize that our associates and their collective contribution are ultimately responsible for JHA's past, present, and future success. Recruiting and retaining high-quality employees is essential to our ongoing growth and financial performance, and we have established a corporate culture that sustains high levels of employee satisfaction.

### **Industry Background**

Jack Henry Banking primarily serves commercial banks and savings institutions with up to \$30.0 billion in assets. According to the Federal Deposit Insurance Corporation ( FDIC ), there were more than 7,600 commercial banks and savings institutions in this asset range as of December 31, 2010. Jack Henry Banking currently supports nearly 1,400 of these banks with its core information processing platforms and complementary products and services.

Symitar serves credit unions of all asset sizes. According to the Credit Union National Association ( CUNA ), there were more than 7,600 domestic credit unions as of December 31, 2010. Symitar currently supports nearly 750 of these credit unions with core information processing platforms and complementary products and services.

ProfitStars serves financial services organizations of all asset sizes and charters. ProfitStars currently supports nearly 8,000 institutions with specialized solutions for generating additional revenue and growth, increasing security, mitigating operational risks, and controlling operating costs.

iPay Technologies serves financial institutions of all sizes and currently supports approximately 3,700 institutions with electronic payment platform and online bill payment solutions.

The FDIC reports the number of commercial banks and savings institutions declined 13 percent from the beginning of calendar year 2006 to the end of calendar year 2010. Although the number of banks declined at a 3 percent compound annual rate during this period, aggregate assets increased at a compound annual rate of 6 percent and totaled \$12.1 trillion as of December 31, 2010. Comparing calendar years 2010 to 2009, new bank charters decreased 65 percent and mergers increased 10 percent.

CUNA reports the number of credit unions declined 16 percent from the beginning of calendar year 2006 to the end of calendar year 2010. Although the number of credit unions declined at a 3 percent compound annual rate during this period, aggregate assets increased at a compound annual rate of 7 percent and totaled \$934.1 billion as of December 31, 2010.

According to *Automation in Banking 2011*, approximately 56 percent of all financial institutions currently utilize in-house core information processing solutions and approximately 44 percent outsource information processing to third-party providers. According to the *2011 Credit Union Technology Survey* published by Callahan & Associates, approximately 67 percent of all credit unions utilize in-house core information processing solutions and approximately 30 percent outsource information processing to third-party providers.

Community and mid-tier banks and credit unions are important in the communities and to the consumers they serve. Bank customers and credit union members rely on these institutions to provide personalized, relationship-based

service and competitive financial products and services available through the customer's delivery channel of choice. Institutions are recognizing that attracting and retaining customers/members in today's highly competitive financial industry and realizing near and long term performance goals are often technology-dependent. Financial institutions must implement technological solutions that enable them to:

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Maximize performance with accessible, accurate, and timely decision support and business intelligence information;

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Offer the high-demand products and services needed to successfully compete with traditional competitors and non-traditional competitors created by convergence within the financial services industry;

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Enhance the customer/member experience at varied points of contact;

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Expand existing customer/member relationships and strengthen exit barriers by cross selling additional products and services;

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Capitalize on new revenue and deposit growth opportunities;

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Increase operating efficiencies and reduce operating costs;

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Implement e-commerce strategies that provide the convenience-driven services required in today's financial services industry;

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Protect mission-critical information assets and operational infrastructure;

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Protect customers/members from fraud and related financial losses;

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Maximize the day-to-day use of technology and the return on technology investments; and

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Ensure full regulatory compliance.

JHA's extensive product and service offering enables diverse financial institutions to capitalize on these business opportunities and respond to these business challenges. We strive to establish a long-term, value-added technology partnership with each customer, and to continually expand our offering with the specific solutions our customers need to prosper in the evolving financial services industry.

### **Mission Statement**

JHA's mission is to protect and increase the value of its stockholders' investment by providing quality products and services to our customers by:

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Concentrating our activities on what we know best - information systems and services for financial institutions;

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Providing outstanding commitment and service to our customers so that the perceived value of our products and services is consistent with the real value; and

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Maintaining a work environment that is personally, professionally, and financially rewarding to our employees.

### **Business Strategy**

Our fundamental business strategy is to generate organic revenue and earnings growth supplemented by strategic acquisitions. We execute this strategy by:

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Providing commercial banks and credit unions with core software systems that provide excellent functionality, and support in-house and outsourced operating environments with identical functionality.

§

Expanding each core customer relationship by cross-selling complementary products and services that enhance the functionality provided by our core information processing systems.

§

Maintaining a company-wide commitment to customer service that consistently exceeds our customers' expectations and generates high levels of customer retention.

§

Capitalizing on our focused diversification acquisition strategy.

### **Focused Diversification Acquisition Strategy**

JHA's acquisition strategy, which complements and accelerates our organic growth, focuses on successful companies that provide in-demand products and services, excellent customer relationships, and strong management teams and

employee bases.

Historically, our acquisition strategy focused on companies that:

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Expanded our base of core financial institution customers,

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Expanded our suite of complementary products and services that were cross sold to existing customers,

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Enabled our entry into adjacent markets within financial services industry; and/or

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Provided additional outsourcing capabilities/opportunities.

In 2004, we adopted our focused diversification acquisition strategy and began acquiring companies and highly specialized products that are:

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Sold to existing core customers;

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Sold outside JHA's base of core bank and credit union customers to financial services organizations of all charters and asset sizes;

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Selectively sold outside the financial services industry to diverse corporate entities; and

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Selectively sold internationally.

Since our focused diversification strategy was adopted, JHA has completed 19 acquisitions that support it and assembled four distinct product brands that enable users to:

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Generate additional revenue and growth opportunities,

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Increase security and mitigate operational risks, and /or

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Control operating costs.

These products and services enable us to expand our reach well beyond our traditional markets with solutions that are appropriate for virtually any financial services organization, including thousands of institutions that we previously did not sell to.

Following are the acquisitions that have been made in the last five fiscal years to support JHA's focused diversification:

| <b>Fiscal Year</b> | <b>Company or Product Name</b> | <b>Products and Services</b>                           |
|--------------------|--------------------------------|--|
| 2010               | iPay Technologies              | Internet and telephone bill payment services           |
| 2010               | PEMCO Technology Services      | Payment processing solutions for credit unions         |
| 2010               | Goldleaf Financial Solutions   | Integrated technology and payment processing solutions |
| 2008               | AudioTel                       | Check and document imaging and electronic banking      |
| 2008               | Gladiator Technology           | Information Technology Security Services               |
| 2007               | Margin Maximizer               | Loan and Deposit Pricing Solutions                     |

**Solutions**

Our proprietary solutions are marketed through four business brands:

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**Jack Henry Banking** supports commercial banks with information and transaction processing platforms that provide enterprise-wide automation. Its solutions encompass three functionally distinct core processing systems and more than 100 complementary solutions, including business intelligence and bank management, retail and business banking, internet banking and electronic funds transfer ( EFT ), risk management and protection, and item and document imaging solutions. Our banking solutions have state-of-the-art functional capabilities, and we can provide the hardware required by each software system. Our banking solutions can be delivered in-house or through outsourced implementation, and are backed by a company-wide commitment to provide exceptional personal service. Jack Henry Banking is a recognized market leader, currently supporting nearly 1,400 banks with its technology platforms.

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**Symitar** supports credit unions of all sizes with information and transaction processing platforms that provide enterprise-wide automation. Its solutions include two functionally distinct core processing systems and more than 50 complementary solutions, including business intelligence and credit union management, member and member business services, Internet banking and EFT, risk management and protection, and item and document imaging solutions. Our credit union solutions also have state-of-the-art functional capabilities, and we can provide the hardware required by each software system. Our credit union solutions can be delivered in-house or through outsourced implementation, and are also backed by our company-wide commitment to provide exceptional personal service.

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**ProfitStars** is a leading provider of specialized products and services assembled through our focused diversification acquisition strategy. These solutions are compatible with a wide variety of information technology platforms and operating environments, and include proven solutions for generating additional revenue and growth, increasing

security and mitigating operational risks, and/or controlling operating costs. ProfitStars products and services are enhancing the performance of financial services organizations of all asset sizes and charters, and diverse corporate entities with nearly 8,000 domestic and international implementations. These distinct products and services can be implemented individually or as solution suites to address specific business problems and enable effective responses to dynamic industry trends.

§

**iPay Technologies** is a leading provider of a configurable electronic payments platform and turnkey online bill payment solutions. These solutions integrate with any online banking platform, aiding financial institutions with the attraction and retention of customers. Through strategic processing and online banking solutions, iPay Technologies is supporting more than 3,700 financial institutions.

We will continue to develop and maintain functionally robust, integrated solutions that are supported with high service levels; regularly enhanced using an interactive customer enhancement process; compliant with relevant regulations; updated with proven advances in technology; and consistent with JHA's reputation as a premium product and service provider.

### **Core Software Systems**

Core software systems primarily consist of the integrated applications required to process deposit, loan, and general ledger transactions, and to maintain centralized customer/member information.

Jack Henry Banking markets three core software systems to banks and Symitar markets two core software systems to credit unions. These core systems are available for in-house installation at customer sites or financial institutions can outsource ongoing information processing to JHA based on the core processing solution most compatible with their specific operational requirements.

Jack Henry Banking's three core banking platforms are:

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**SilverLake®** is a robust IBM® System i™-based system primarily designed for commercial-focused banks with assets ranging from \$500 million to \$30 billion. However, an increasing number of progressive smaller banks, including de novo, or recently chartered start-up banks, are now selecting SilverLake. This system has been implemented by nearly 430 banks, and now automates approximately 6 percent of the domestic banks with assets less than \$30 billion.

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**CIF 20/20®** is a parameter-driven, easy-to-use system that now supports nearly 730 banks ranging from de novo institutions to those with assets exceeding \$2 billion. CIF 20/20 is the most widely used IBM System i-based core processing system in the community bank market.

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**Core Director®** is a Windows®-based, client/server system that now supports over 230 banks ranging from de novo institutions to those with assets exceeding \$1 billion. Core Director is a cost-efficient operating platform and provides intuitive point-and-click operation.

Symitar's two functionally distinct core credit union platforms are:

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**Episys**<sup>®</sup> is a robust IBM System p<sup>™</sup>-based system primarily designed for credit unions with more than \$50 million in assets. It has been implemented by over 560 credit unions and is ranked as the system implemented by more credit unions with assets exceeding \$25 million than any other alternative.

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**Cruise**<sup>®</sup> is a Windows-based, client/server system designed primarily for credit unions with less than \$50 million in assets. It has been implemented by more than 180 credit unions, is cost-efficient, and provides intuitive point-and-click, drag-and-drop operation.

Customers electing to install our solutions in-house license the proprietary software systems based on initial license fees. The large majority of these customers pay ongoing annual software maintenance fees. We also re-market the hardware and peripheral equipment that is required by our software solutions; and we contract to perform software implementation, data conversion, training, ongoing support, and other related services. In-house customers generally license our core software systems under a standard license agreement that provides a fully paid, nonexclusive, nontransferable right to use the software on a single computer at a single location.

Customers can eliminate the significant up-front capital expenditures required by in-house installations and the responsibility for operating information and transaction processing infrastructures by outsourcing these functions to JHA. Our outsourcing services are provided through a national network of six data centers in five physical locations and six image-enabled item processing centers. Customers electing to outsource their core processing typically sign five-year contracts that include transaction-based processing fees and minimum guaranteed payments during the contract period.

We support the dynamic business requirements of our core bank and credit union clients with ongoing enhancements to each core system, the regular introduction of new integrated complementary products, the ongoing integration of practical new technologies, and regulatory compliance initiatives. JHA also serves each core customer as a single point of contact, support, and accountability.

### **Complementary Products and Services**

We provide more than 100 complementary products and services that are sold to our core bank and credit union customers, and selectively sold by our ProfitStars division to financial services organizations that use other core processing systems.

These complementary solutions enable core bank and credit union clients to respond to evolving customer/member demands, expedite speed-to-market with competitive offerings, increase operating efficiency, address specific operational issues, and generate new revenue streams. The highly specialized solutions sold by ProfitStars enable diverse financial services organizations and corporate entities to generate additional revenue and growth opportunities, increase security and mitigate operational risks, and control operating costs.

iPay Technologies provides complementary solutions that can integrate with any online banking platform, aiding financial institutions with the attraction and retention of customers. We also provide a configurable electronic payments platform and turnkey online bill payment solutions through our iPay Technologies division. Through strategic partnerships with more than 50 providers of information processing and online banking solutions, this suite of solutions integrates with any online banking platform, and responds to evolving customer and member demands.

JHA regularly introduces new products and services based on demand for integrated complementary solutions from our existing core clients, and based on the growing demand among financial services organizations and corporate



entities for specialized solutions capable of increasing revenue and growth opportunities, mitigating and controlling operational risks, and containing costs. The Company's Industry Research department solicits customer guidance on the business solutions they need, formally evaluates available solutions and competitive offerings, and manages the introduction of new product offerings. JHA's new complementary products and services are developed internally, acquired, or provided through strategic alliances.

### **Hardware Systems**

Hardware sales, which include non-JHA products that we re-market in order to support our software systems, represent one of our primary revenue sources.

Our software systems operate on a variety of hardware platforms. We have established remarketing agreements with IBM Corporation, Avnet, Inc., and other hardware providers that allow JHA to purchase hardware at a discount and resell it directly to our customers. We currently sell the IBM Power Systems and System x servers; Lenovo workstations; Dell servers and workstations; Burroughs, RDM, Panini, Digital Check, Canon check scanners; and other devices that complement our software solutions.

JHA has maintained a long-term strategic relationship with IBM, dating back to the development of our first core software applications over 30 years ago. This relationship has resulted in IBM naming JHA as a "Premier Business Partner" every year since 1993.

### **Implementation and Training**

While it is not essential, the majority of our core bank and credit union customers contract with us for implementation and training services in connection with their in-house systems.

A complete core system implementation typically includes detailed planning, project management, data conversion, and testing. Our experienced implementation teams travel to customer facilities to help manage the process and ensure that all data is transferred from the legacy system to the JHA system being implemented. Our implementation fees are fixed or hourly based on the core system being installed.

Implementation and training services also are provided in connection with new customers outsourcing their information processing to JHA.

We also provide extensive initial and ongoing education to our customers. Know-It-All Education is a comprehensive training program that supports new customers with basic training and longtime customers with continuing education. The curricula provide the ongoing training financial institutions need to maximize the use of JHA's core and complementary products, to optimize ongoing system enhancements, and to fully understand dynamic year-end legislative and regulatory requirements. Each basic, intermediate, and advanced course is delivered by system experts, supported by professional materials and training tools, and incorporates different educational media in a blended learning approach. Know-It-All Education supports distinct learning preferences with a variety of delivery channels, including classroom-based courses offered in JHA's regional training centers, Internet-based live instruction, eLearning courses, on-site training, and train-the-trainer programs.

### **Support and Services**

We serve our customers as a single point of contact and support for the complex solutions we provide. The Company's comprehensive support infrastructure incorporates:

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Exacting service standards;

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Trained support staffs available 24 hours-a-day, 365 days-a-year;

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Assigned account managers;

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Sophisticated support tools, resources, and technology; and

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A best practices methodology developed and refined through the company-wide, day-to-day experience supporting more than 11,300 diverse clients.

JHA's experience converting diverse banks and credit unions to our core platforms from every competitive platform also provides highly effective change management and control processes.

Most in-house customers contract for annual software support services, and this represents a significant source of recurring revenue for JHA. These support services are typically priced at approximately 18 to 20 percent of the respective product's software license fee. These fees generally increase as customer assets increase and as additional complementary products are purchased. Annual software support fees are typically billed during June and are paid in advance for the entire fiscal year, with pro-ration for new product implementations that occur during the year. Hardware support fees also are usually paid in advance for entire contract periods which typically range from one to five years. Most support contracts automatically renew unless the customer or JHA gives notice of termination at least 60 days prior to contract expiration.

High levels of support are provided to our outsourced customers by the same support infrastructure utilized for in-house customers. However, these support fees are included as part of monthly outsourcing fees.

JHA regularly measures customer satisfaction using formal annual surveys and online surveys initiated each year by routine support requests. This process shows that we consistently exceed our customers' service-related expectations.

## **Backlog**

Backlog consists of contracted in-house products and services that have not been delivered. Backlog also includes the minimum monthly payments for the remaining portion of multi-year outsourcing contracts, and typically includes the minimum payments guaranteed for the remainder of the contract period.

Backlog as of June 30, 2011 totaled \$358.8 million, consisting of \$79.1 million for in-house products and services, and \$279.7 million for outsourcing services. Approximately \$217.2 million of the outsourcing services backlog as of June 30, 2011 is not expected to be realized during fiscal 2012 due to the long-term nature of many outsourcing contracts. Backlog as of June 30, 2010 totaled \$328.8 million, consisting of \$78.2 million for in-house products and services, and \$250.6 million for outsourcing services.

Our in-house backlog is subject to seasonal variations and can fluctuate quarterly. Our outsourcing backlog continues to experience growth based on new contracting activities and renewals of multi-year contracts, and although the appropriate portion of this revenue will be recognized during fiscal 2012, the backlog is expected to trend up gradually for the foreseeable future due to renewals of existing relationships and new contracting activities.

## **Research and Development**

We invest significant resources in ongoing research and development to develop new software solutions and services, and enhance existing solutions with additional functionality and features required to ensure regulatory compliance. Our core and complementary systems are typically enhanced once each year. Product-specific enhancements are largely customer-driven with recommended enhancements formally gathered through focus groups, change control boards, strategic initiatives meetings, annual user group meetings, and ongoing customer contact. We also continually evaluate and implement process improvements that expedite the delivery of new products and enhancements to our customers, and reduce related costs.

Research and development expenses for fiscal years 2011, 2010, and 2009 were \$63.4 million, \$50.8 million, and \$42.9 million, respectively. Capitalized software for fiscal years 2011, 2010 and 2009 was \$27.0 million, \$25.6 million, and \$24.7 million, respectively.

## **Sales and Marketing**

JHA serves established, well defined markets that provide ongoing sales and cross-sales opportunities.

Jack Henry Banking sells core processing systems and integrated complementary solutions to domestic commercial banks with assets up to \$30.0 billion. Symitar sells core processing systems and integrated complementary solutions to domestic credit unions of all asset sizes. The marketing and sales initiatives within these business lines are primarily focused on identifying banks and credit unions evaluating alternative core information and transaction processing solutions. Jack Henry Banking also has been successfully selling its core and complementary solutions to a significant number of the de novo banks chartered in recent years. ProfitStars sells specialized niche solutions that complement existing technology platforms to domestic financial services organizations of all asset sizes and charters. iPay Technologies sells configurable electronic payment platforms and turnkey online bill payment solutions that respond to evolving customer and member demands across a diverse range of financial institutions.

Dedicated sales forces support each of JHA's four business brands. Sales executives are responsible for the activities required to earn new customers in assigned territories, and regional account executives are responsible for nurturing customer relationships and cross selling additional products and services. Our sales professionals receive base salaries and performance-based commission compensation. Brand-specific sales support staff provide a variety of services, including product and service demonstrations, responses to prospect-issued requests-for-proposals, and proposal and contract generation. A centralized marketing department supports all four business lines with lead generation and brand-building activities, including participation in state-specific, regional, and national trade shows; print and online advertising; telemarketing; customer newsletters; ongoing promotional campaigns; and media relations. JHA also hosts annual national user group meetings which provide opportunities to network with existing clients and demonstrate new products and services.

jhaDirect sells specific complementary solutions, and business forms and supplies that are compatible with JHA's software solutions. jhaDirect's offering consists of more than 4,000 items, including tax and custom forms, ATM and teller supplies, check imaging and reader/sorter supplies, magnetic media, laser printers and supplies, loan coupon books, and much more. New items are regularly added in response to dynamic regulatory requirements and to support JHA's ever-expanding product and service suite.

JHA sells select products and services in the Caribbean and, as a result of recent acquisitions, Europe and South America. International sales account for less than one percent of JHA's total revenue in each of the three years ended June 30, 2011, 2010, and 2009.

### **Competition**

The market for companies providing technology solutions to financial services organizations is competitive, and we expect that competition from both existing competitors and companies entering our existing or future markets will remain strong. Some of JHA's current competitors have longer operating histories, larger customer bases, and greater financial resources. The principal competitive factors affecting the market for technology solutions include product/service functionality, price, operating flexibility and ease-of-use, customer support, and existing customer references. For more than a decade there has been significant consolidation among providers of products and services designed for financial institutions, and this consolidation is expected to continue in the future.

Jack Henry Banking, Symitar and iPay Technologies compete with large vendors that provide information and transaction processing solutions to banks and credit unions, including Fidelity National Information Services, Inc.; Fiserv, Inc.; Open Solutions, Inc.; and Harland Financial Solutions - Ultradata. ProfitStars competes with an array of disparate vendors that provide niche solutions to financial services organizations and corporate entities.

### **Intellectual Property, Patents, and Trademarks**

Although we believe our success depends upon our technical expertise more than our proprietary rights, our future success and ability to compete depend in part upon our proprietary technology. We have registered or filed applications for our primary trademarks. Most of our technology is not patented. Instead, we rely on a combination of contractual rights, copyrights, trademarks, and trade secrets to establish and protect our proprietary technology. We generally enter into confidentiality agreements with our employees, consultants, resellers, customers, and potential customers. Access to and distribution of our Company's source code is restricted, and the disclosure and use of other proprietary information is further limited. Despite our efforts to protect our proprietary rights, unauthorized parties can attempt to copy or otherwise obtain, or use our products or technology. We cannot be certain that the steps taken in this regard will be adequate to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

### **Regulatory Compliance**

JHA maintains a strict corporate commitment to address compliance issues and implement requirements imposed by the federal regulators prior to the effective date of such requirements when adequate prior notice is given. JHA's comprehensive compliance program is provided by a team of compliance analysts and auditors that possess extensive regulatory agency and financial institution experience, and a thorough working knowledge of JHA and our solutions. These compliance professionals leverage multiple channels to remain informed about potential and recently enacted regulatory requirements, including regular discussions on emerging topics with the Federal Financial Institutions Examination Council (FFIEC) examination team and training sessions sponsored by various professional associations.

JHA has a proven process to inform internal contacts of new and revised regulatory requirements. Upcoming regulatory changes also are presented to the Company's product-specific change control boards and the necessary product changes are included in the ongoing product development cycle. A representative of JHA's compliance organization serves on every change control board to ensure that the regulatory perspective is addressed in proposed product/service changes. We publish newsletters to keep our customers informed of regulatory changes that could impact their operations. Periodically, customer advisory groups are assembled to discuss significant regulatory changes, such as recent changes to the FDIC's overdraft fee guidance.

Internal audits of our systems, networks, operations, and applications are conducted and specialized outside firms are periodically engaged to perform testing and validation of our systems, processes, and security. Ensuring that confidential information remains private is a high priority, and JHA's initiatives to protect confidential information include regular third-party application reviews intended to better secure information access. Additional third-party reviews are performed throughout the organization, such as vulnerability tests, intrusion tests, and SSAE 16 reviews. The FFIEC conducts annual reviews throughout the Company and issues reports that are reviewed by the JHA Audit Committee of the Board of Directors.

### **Government Regulation**

The financial services industry is subject to extensive and complex federal and state regulation. All financial institutions are subject to substantial regulatory oversight and supervision, with increased attention to consumer regulations with the addition of the Consumer Financial Protection Bureau. Our products and services must comply with the extensive and evolving regulatory requirements applicable to our customers, including but not limited to those mandated by federal truth-in-lending and truth-in-savings rules, the Privacy of Consumer Financial Information regulations, usury laws, the Equal Credit Opportunity Act, the Fair Housing Act, the Electronic Funds Transfer Act, the Fair Credit Reporting Act, the Bank Secrecy Act, the USA Patriot Act, the Gramm-Leach-Bliley Act, and the Community Reinvestment Act. The compliance of JHA's products and services with these requirements depends on a variety of factors, including the particular functionality, the interactive design, the classification of customers, and the manner in which the customer utilizes the products and services. Our customers are contractually responsible for assessing and determining what is required of them under these regulations and then we assist them in meeting their regulatory needs through our products and services. The impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act is still evolving as the regulations are written to implement the various provisions of the law. We cannot predict the impact these regulations, any future amendments to these regulations or any newly implemented regulations will have on our business in the future.

JHA is not chartered by the Office of the Comptroller of Currency, the Board of Governors of the Federal Reserve System, the National Credit Union Administration or other federal or state agencies that regulate or supervise depository institutions.

Operating as a service provider to financial institutions, JHA's operations are governed by the same regulatory requirements as those imposed on financial institutions, and subject to periodic reviews by FFIEC regulators who have broad supervisory authority to remedy any shortcomings identified in such reviews.

JHA provides outsourced data and item processing through geographically dispersed OutLink™ Data Centers, electronic transaction processing through our PassPort and Enterprise Payments Solutions™, Internet banking through NetTeller, ProfitStar's Teleweb, and MemberConnect™ online solutions, and business recovery services through Centurion Disaster Recovery.

The services provided by our OutLink Data Centers are subject to examination by the Federal Financial Institution Examination Council regulators under the Bank Service Company Act. These outsourcing services also are subject to examination by state banking authorities on occasion.

### **Employees**

As of June 30, 2011 and 2010, JHA had 4,667 and 4,528 full-time employees, respectively. Of our full-time employees, approximately 770 are employed in the credit union segment of our business, with the remainder employed in the bank business segment or in general and administrative functions that serve both segments. Our employees are not covered by a collective bargaining agreement and there have been no labor-related work stoppages.

### **Available Information**

JHA's Website is easily accessible to the public at [www.jackhenry.com](http://www.jackhenry.com). The "For Investors" portion of the Website provides key corporate governance documents, the code of conduct, an archive of press releases, and other relevant Company information. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other filings and amendments thereto that are made with the U.S. Securities and Exchange Commission (SEC) also are available free of charge on our Website as soon as reasonably practical after these reports have been filed with or furnished to the SEC.

## ITEM 1A. RISK FACTORS

The Company's business and the results of its operations are affected by numerous factors and uncertainties, some of which are beyond our control. The following is a description of some of the important risks and uncertainties that may cause the actual results of the Company's operations in future periods to differ from those expected or desired.

**Our business may be adversely impacted by U.S. and global market and economic conditions.** We derive most of our revenue from products and services we provide to the financial services industry. Given this concentration, we may be particularly exposed to the current difficult and unsettled economic climate. If the economic environment remains poor, it may result in significant decreases in demand by current and potential clients for our products and services, which could have a material adverse effect on our business, results of operations and financial condition.

**Changes in the banking and credit union industry could reduce demand for our products.** Cyclical fluctuations in economic conditions affect profitability and revenue growth at commercial banks and credit unions. Unfavorable economic conditions negatively affect the spending of banks and credit unions, including spending on computer software and hardware. Such conditions could reduce both our sales to new customers and upgrade/complementary product sales to existing customers. The Company could also experience the loss of customers due to their financial failure.

**Competition or general economic conditions may result in decreased demand or require price reductions or other concessions to customers which could result in lower margins and reduce income.** We vigorously compete with a variety of software vendors in all of our major product lines. We compete on the basis of product quality, reliability, performance, ease of use, quality of support and services, integration with other products and pricing. Some of our competitors may have advantages over us due to their size, product lines, greater marketing resources, or exclusive intellectual property rights. If competitors offer more favorable pricing, payment or other contractual terms, warranties, or functionality, or if general economic conditions decline such that customers are less willing or able to pay the cost of our products and services, we may need to lower prices or offer favorable terms in order to successfully compete.

**Security problems could damage our reputation and business.** We rely on industry-standard encryption, network and Internet security systems, most of which we license from third parties, to provide the security and authentication necessary to effect secure transmission of data. Computer networks and the Internet are vulnerable to unauthorized access, computer viruses and other disruptive problems. Individual personal computers can be stolen, and customer data media can be lost in shipment. Under state and proposed federal laws requiring consumer notification of security breaches, the costs to remediate security breaches can be substantial. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may render our security measures inadequate. Security risks may result in liability to us and also may deter financial institutions from purchasing our products. We will continue to expend significant capital and other resources protecting against the threat of security breaches, and we may need to expend resources alleviating problems caused by breaches. Eliminating computer viruses and addressing other security problems may result in interruptions, delays or cessation of service to users, any of which could harm our business.

**If we fail to adapt our products and services to changes in technology, we could lose existing customers and be unable to attract new business.** The markets for our software and hardware products and services are characterized by changing customer requirements and rapid technological changes. These factors and new product introductions by our existing competitors or by new market entrants could reduce the demand for our existing products and services and we may be required to develop or acquire new products and services. Our future success is dependent on our ability to enhance our existing products and services in a timely manner and to develop or acquire new products and services. If we are unable to develop or acquire new products and services as planned, or if we fail to sell our new or enhanced products and services, we may incur unanticipated expenses or fail to achieve anticipated revenues.

**Consolidation and failures of financial institutions will continue to reduce the number of our customers and potential customers.** Our primary market consists of approximately 7,600 commercial and savings banks and 7,600 credit unions. The number of commercial banks and credit unions has decreased because of failures over the last few years and mergers and acquisitions over the last several decades and is expected to continue to decrease as more consolidation occurs.

**The services we provide to our customers are subject to government regulation that could hinder the development of portions of our business or impose constraints on the way we conduct our operations.** The financial services industry is subject to extensive and complex federal and state regulation. As a supplier of services to financial institutions, portions of our operations are examined by the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the National Credit Union Association, among other regulatory agencies. These agencies regulate services we provide and the manner in which we operate, and we are required to comply with a broad range of applicable laws and regulations. In addition, existing laws, regulations, and policies could be amended or interpreted differently by regulators in a manner that has a negative impact on our existing operations or that limits our future growth or expansion. Our customers are also regulated entities, and actions by regulatory authorities could determine both the decisions they make concerning the purchase of data processing and other services and the timing and implementation of these decisions. Concerns are growing with respect to the use, confidentiality, and security of private customer information. Regulatory agencies, Congress and state legislatures are considering numerous regulatory and statutory proposals to protect the interests of consumers and to require compliance with standards and policies that have not been defined.

**The software we provide to our customers is also affected by government regulation.** We are generally obligated to our customers to provide software solutions that comply with applicable federal and state regulations. Substantial software research and development and other corporate resources have been and will continue to be applied to adapt our software products to this evolving, complex and often unpredictable regulatory environment. Our failure to provide compliant solutions could result in significant fines or consumer liability on our customers, for which we may bear ultimate liability.

**The Dodd-Frank Act and related regulations may have an adverse impact on our clients and our business.** The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ) represents a comprehensive overhaul of the financial services industry within the United States, establishes the new federal Consumer Financial Protection Bureau (the CFPB ) and requires the CFPB and other federal agencies to implement numerous new regulations. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations will impact our business or the businesses of our current and potential clients. To the extent the regulations negatively impact the business, operations or financial condition of our customers, our business and results of operations could be materially and adversely affected because, among other matters, our customers could have less capacity to purchase products and services from us. We could be required to invest a significant amount of time and resources to comply with additional regulations or to modify the manner in which we provide products and services to our customers. We may not be able to update our existing products and services, or develop new ones, to satisfy our customers' needs. Any of these events, if realized, could have a material adverse effect on our business, results of operations and financial condition.

**Failures associated with payment transactions could result in a financial loss.** The volume and dollar amount of payment transactions that we process is very large and continues to grow. We settle funds on behalf of financial institutions, other businesses and consumers and receive funds from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by us include debit card, credit card, electronic bill payment transactions, Automated Clearing House ( ACH ) payments and check clearing that supports consumers, financial institutions and other businesses. If the continuity of operations, integrity of processing, or ability to detect or prevent fraudulent payments were compromised in connection with payments transactions, this could result in a financial as well as reputational loss to us. In addition, we rely on various financial institutions to provide ACH services in support of funds settlement for certain of our products. If we are unable to obtain such ACH services in the future, that could have a material adverse effect on our business, financial position and results of operations. In addition, we may issue credit to consumers, financial institutions or other businesses as part of the funds settlement. A default on this credit by a counterparty could result in a financial loss to us.

**An operational failure in our outsourcing facilities could cause us to lose customers.** Damage or destruction that interrupts our outsourcing operations could damage our relationship with customers and may cause us to incur substantial additional expense to repair or replace damaged equipment. Our back-up systems and procedures may not prevent disruption, such as a prolonged interruption of our transaction processing services. In the event that an interruption of our network extends for more than several hours, we may experience data loss or a reduction in revenues by reason of such interruption. In addition, a significant interruption of service could have a negative impact on our reputation and could lead our present and potential customers to choose other service providers.

**We may not be able to manage growth.** We have grown both internally and through acquisitions. Our expansion has and will continue to place significant demands on our administrative, operational, financial and management personnel and systems. We may not be able to enhance and expand our product lines, manage costs, adapt our infrastructure and modify our systems to accommodate future growth.

**Our growth may be affected if we are unable to find or complete suitable acquisitions.** We have augmented the growth of our business with a number of acquisitions and we plan to continue to acquire appropriate businesses, products and services. This strategy depends on our ability to identify, negotiate and finance suitable acquisitions. Substantial recent merger and acquisition activity in our industry has affected the availability and pricing of such acquisitions. If we are unable to acquire suitable acquisition candidates, we may experience slower growth.

**Acquisitions may be costly and difficult to integrate.** We have acquired a number of businesses in the last several years and will continue to explore acquisitions in the future. We may not be able to successfully integrate acquired companies. We may encounter problems with the integration of new businesses including: financial control and computer system compatibility; unanticipated costs; unanticipated quality or customer problems with acquired products or services; differing regulatory and industry standards; diversion of management's attention; adverse effects on existing business relationships with suppliers and customers; loss of key employees; and significant amortization expenses related to acquired assets. To finance future acquisitions, we may have to increase our borrowing or sell equity or debt securities to the public. If we fail to integrate our acquisitions, our business, financial condition and results of operations could be materially and adversely affected. Failed acquisitions could also produce material and unpredictable impairment charges as we periodically review our acquired assets.

**The loss of key employees could adversely affect our business.** We depend on the contributions and abilities of our senior management. Our Company has grown significantly in recent years and our management remains concentrated in a small number of key employees. If we lose one or more of our key employees, we could suffer a loss of sales and delays in new product development, and management resources would have to be diverted from other activities to compensate for this loss. We do not have employment agreements with any of our executive officers.



**If our strategic relationship with IBM were terminated, it could have a negative impact on the continuing success of our business.** We market and sell IBM hardware and equipment to our customers under an IBM Business Partner Agreement and resell maintenance on IBM hardware products to our customers. Much of our software is designed to be compatible with the IBM hardware that is run by a majority of our customers. If IBM were to terminate or fundamentally modify our strategic relationship, our relationship with our customers and our revenues and earnings could suffer. We could also lose software market share or be required to redesign existing products or develop new products for new hardware platforms.

**If others claim that we have infringed their intellectual property rights, we could be liable for significant damages.** We have agreed to indemnify many of our customers against claims that our products and services infringe on the proprietary rights of others. We anticipate that the number of infringement claims will increase as the number of our software solutions and services increases and the functionality of our products and services expands. Any such claims, whether with or without merit, could be time-consuming, result in costly litigation and may not be resolved on terms favorable to us.

**Expansion of services to non-traditional customers could expose us to new risks.** Some of our recent acquisitions include business lines that are marketed outside our traditional, regulated, and litigation-averse base of financial institution customers. These non-regulated customers may entail greater operational, credit and litigation risks than we have faced before and could result in increases in bad debts and litigation costs.

**Failure to achieve favorable renewals of service contracts could negatively affect our outsourcing business.** Our contracts with our customers for outsourced data processing services generally run for a period of 3-5 years. Because of the rapid growth of our outsourcing business over the last five years, we will experience greater numbers of these contracts coming up for renewal over the next few years. Renewal time presents our customers with the opportunity to consider other providers or to renegotiate their contracts with us. If we are not successful in achieving high renewal rates upon favorable terms, our outsourcing revenues and profit margins will suffer.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We own 154 acres located in Monett, Missouri on which we maintain nine office buildings, shipping & receiving and maintenance buildings. We also own buildings in Houston, Texas; Allen, Texas; Albuquerque, New Mexico; Birmingham, Alabama; Lenexa, Kansas; Angola, Indiana; Shawnee Mission, Kansas; Rogers, Arkansas; Oklahoma City, Oklahoma; Elizabethtown, Kentucky; Springfield, Missouri and San Diego, California. Our owned facilities represent approximately 1,000,000 square feet of office space in ten states. We have 43 leased office facilities in 21 states, which total approximately 412,000 square feet. All of our owned and leased office facilities are for normal business purposes.

Of our facilities, the credit union business segment uses office space totaling approximately 147,000 square feet in ten facilities. The majority of our San Diego, California offices are used in the credit union business segment, as are portions of nine other office facilities. The remainder of our leased and owned facilities, approximately 1,250,000 square feet of office space, is primarily devoted to serving our bank business segment or supports our whole business.

We own five aircraft. Many of our customers are located in communities that do not have an easily accessible commercial airline service. We primarily use our airplanes in connection with implementation, sales of systems and internal requirements for day-to-day operations. Transportation costs for implementation and other customer services are billed to our customers. We lease property, including real estate and related facilities, at the Monett, Missouri municipal airport.

### ITEM 3. LEGAL PROCEEDINGS

We are subject to various routine legal proceedings and claims arising in the ordinary course of business. We do not expect that the results in any of these legal proceedings will have a material adverse effect on our business, financial condition, results of operations or cash flows.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is quoted on the NASDAQ Global Select Market ( NASDAQ ), formerly known as the NASDAQ National Market, under the symbol JKH Y . The following table sets forth, for the periods indicated, the high and low sales price per share of the common stock as reported by NASDAQ.

|                       | Fiscal 2011    |                | Fiscal 2010 |         |
|-----------------------|----------------|----------------|-------------|---------|
|                       | High           | Low            | High        | Low     |
| <b>Fourth Quarter</b> | <b>\$34.17</b> | <b>\$28.45</b> | \$26.50     | \$22.55 |
| <b>Third Quarter</b>  | <b>33.94</b>   | <b>28.96</b>   | 24.88       | 21.01   |
| <b>Second Quarter</b> | <b>29.97</b>   | <b>25.35</b>   | 24.75       | 22.22   |
| <b>First Quarter</b>  | <b>26.30</b>   | <b>23.19</b>   | 24.66       | 19.56   |

The Company established a practice of paying quarterly dividends at the end of fiscal 1990 and has paid dividends with respect to every quarter since that time. Quarterly dividends per share paid on the common stock for the two most recent fiscal years ended June 30, 2011 and 2010 are as follows:

| Fiscal 2011 | Fiscal 2010 |
|-------------|-------------|
|-------------|-------------|

|                       |                |         |
|-----------------------|----------------|---------|
| <b>Fourth Quarter</b> | <b>\$0.105</b> | \$0.095 |
| <b>Third Quarter</b>  | <b>0.105</b>   | 0.095   |
| <b>Second Quarter</b> | <b>0.095</b>   | 0.085   |
| <b>First Quarter</b>  | <b>0.095</b>   | 0.085   |

The declaration and payment of any future dividends will continue to be at the discretion of our Board of Directors and will depend upon, among other factors, our earnings, capital requirements, contractual restrictions, and operating and financial condition. The Company does not currently foresee any changes in its dividend practices.

Information regarding the Company's equity compensation plans is set forth under the caption "Equity Compensation Plan Information" in the Company's definitive Proxy Statement and is incorporated herein by reference.

On August 19, 2011, there were approximately 42,000 holders of the Company's common stock. On that same date the last sale price of the common shares as reported on NASDAQ was \$25.88 per share.

### **Performance Graph**

The following chart presents a comparison for the five-year period ended June 30, 2011, of the market performance of the Company's common stock with the S & P 500 Index and an index of peer companies selected by the Company:

This comparison assumes \$100 was invested on June 30, 2006, and assumes reinvestments of dividends. Total returns are calculated according to market capitalization of peer group members at the beginning of each period. Peer companies selected are in the business of providing specialized computer software, hardware and related services to financial institutions and other businesses. Companies in the peer group are Bottomline Technology, Inc., Cerner Corp., DST Systems, Inc., Euronet Worldwide, Inc., Fair Isaac Corp., Fidelity National Financial, Inc., Fiserv, Inc., Online Resources Corp., S1 Corp., SEI Investments Company, Telecommunications Systems, Inc., and Tyler Technologies Corp.

## **ITEM 6. SELECTED FINANCIAL DATA**

**Selected Financial Data**  
(In Thousands, Except Per Share Data)

| <u>Income Statement Data</u>                        | <b>YEAR ENDED JUNE 30,</b> |              |              |              |            |
|---|----------------------------|--------------|--------------|--------------|------------|
|   | <b>2011</b>                | 2010         | 2009         | 2008         | 2007       |
| Revenue <sup>(1)</sup>                              | \$ <b>966,897</b>          | \$ 836,586   | \$ 745,593   | \$ 742,926   | \$ 666,467 |
| Income from continuing operations                   | \$ <b>137,471</b>          | \$ 117,870   | \$ 103,102   | \$ 105,287   | \$ 105,644 |
| Basic net income per share, continuing operations   | \$ <b>1.60</b>             | \$ 1.39      | \$ 1.23      | \$ 1.19      | \$ 1.17    |
| Diluted net income per share, continuing operations | \$ <b>1.59</b>             | \$ 1.38      | \$ 1.22      | \$ 1.17      | \$ 1.15    |
| Dividends declared per share                        | \$ <b>0.40</b>             | \$ 0.36      | \$ 0.32      | \$ 0.28      | \$ 0.24    |
| <br><b><u>Balance Sheet Data</u></b>                |                            |              |              |              |            |
| Working capital                                     | \$ <b>(26,561)</b>         | \$ (51,283)  | \$ 15,239    | \$ (11,418)  | \$ 19,908  |
| Total assets  | \$ <b>1,505,797</b>        | \$ 1,560,560 | \$ 1,050,700 | \$ 1,021,044 | \$ 999,340 |
| Long-term debt                                      | \$ <b>127,939</b>          | \$ 272,732   | \$ -         | \$ 24        | \$ 128     |
| Stockholders equity                                 | \$ <b>879,776</b>          | \$ 750,372   | \$ 626,506   | \$ 601,451   | \$ 598,365 |

<sup>(1)</sup> Revenue includes license sales, support and service revenues, and hardware sales, less returns and allowances.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the Selected Financial Data and the consolidated financial statements and related notes included elsewhere in this report.

### **OVERVIEW**

JHA provides integrated computer systems for in-house and outsourced data processing to commercial banks, credit unions and other financial institutions. We have developed and acquired banking and credit union application software systems that we market, together with compatible computer hardware, to these financial institutions. We also perform data conversion and software implementation services for our systems and provide continuing customer support services after the systems are implemented. For our customers who prefer not to make an up-front capital investment in software and hardware, we provide our full range of products and services on an outsourced basis through our six data centers in five physical locations and six item-processing centers located throughout the United States.

We derive revenues from three primary sources:

§

software license fees;

§

ongoing outsourcing fees, transaction processing fees, and support and service fees, which include implementation services; and

§

hardware sales, which include all non-software remarketed products.

Over the last five fiscal years, our revenues have grown from \$666,467 in fiscal 2007 to \$966,897 in fiscal 2011. Income from continuing operations has grown from \$105,644 in fiscal 2007 to \$137,471 in fiscal 2011. This growth has resulted primarily from internal expansion supplemented by strategic acquisitions, allowing us to develop and acquire new products and services for approximately 11,300 customers who utilize our software systems or services as of June 30, 2011.

Our three most recent acquisitions were completed in fiscal 2010. All of these acquisitions were accounted for using the purchase method of accounting and our consolidated financial statements include the results of operations of the acquired companies from their respective acquisition dates.

We have two business segments: bank systems and services and credit union systems and services. The respective segments include all related license, support and service, and hardware sales along with the related cost of sales.

A detailed discussion of the major components of the results of operations follows. All dollar amounts are in thousands and discussions compare fiscal 2011 to fiscal 2010 and compare fiscal 2010 to fiscal 2009.

## **RESULTS OF OPERATIONS**

### **FISCAL 2011 COMPARED TO FISCAL 2010**

In fiscal 2011, revenues increased 16% or \$130,311 compared to the prior year due primarily to strong organic growth and the prior year acquisitions of Goldleaf Financial Solutions, Inc. ( GFSI ), PEMCO Technology Services, Inc. ( PTSI ) and iPay Technologies Holding Company, LLC ( iPay ). During fiscal 2011, the Company's management continued to focus on cost management that, when combined with the growth in revenue, resulted in a 17% increase in net income.

Slow recovery from the US financial crisis remains a primary concern as it continues to threaten our customers and our industry. The profits of many financial institutions remain low and this has resulted in some reduction of demand for new products and services. During the past two years, a number of financial institutions have failed or been subject to government intervention. To date, such actions have not materially impacted our revenue or results of operations.

In each of the past two years, approximately 1% of all financial institutions in the United States have closed or merged due to regulatory action. We believe that the number of regulatory actions will continue to decline through fiscal 2012, absent a significant downturn in the economy. The increase in bank failures and forced consolidations has been offset to some extent by a general decline in the level of acquisition activity among financial institutions. A consolidation can benefit us when a newly combined institution is processed on our platform, or elects to move to one of our platforms, and can negatively impact us when a competing platform is elected. Consolidations and acquisitions also positively impact our financial results in the short-term due to early termination fees which are generally provided for in multi-year outsourced contracts. These fees are primarily generated when an existing outsourced client is acquired by another financial institution and can vary from period to period based on the number and size of clients that are acquired and how early in the contract term the contract is terminated. We generally do not receive contract termination fees when a financial institution is subject to a government action or from a customer that has selected in-house processing.

Despite the difficult economic climate, we remain cautiously optimistic, with increasing portions of our business coming from recurring revenue, increases in backlog and an encouraging sales pipeline. Our customers will continue to face regulatory and operational challenges which our products and services address, and in these times they have an

even greater need for some of our solutions that directly address institutional profitability and efficiency. We continue to have a strong balance sheet, access to extensive lines of credit, and an unwavering commitment to superior customer service, and we believe that we are well positioned to address current opportunities as well as those which will arise as the economic recovery strengthens. Our cautious optimism was expressed through our acquisitions of GFSI, PTSI and iPay during fiscal 2010 and these acquisitions, the three largest in our Company's history, combined with our existing solutions present us with opportunities to extend our customer base and produce returns for our stockholders.

## REVENUE

### License Revenue

|                             | <u>Year ended June 30,</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2011</u>                | <u>2010</u> |                 |
| License                     | \$ 53,067                  | \$ 52,225   | 2%              |
| Percentage of total revenue | 6%                         | 6%          |                 |

License revenue represents the sale and delivery of application software systems contracted with us by the customer. We license our proprietary software products under standard license agreements that typically provide the customer with a non-exclusive, non-transferable right to use the software on a single computer and for a single financial institution location.

The increase in license revenue for the current year is primarily due to increased organic revenue from our Alogent® products (our suite of deposit and image capture products targeted at large financial institutions) and an additional quarter of revenues from GFSI (acquired in the second quarter of fiscal 2010).

This increase has been partially offset by decreases in our core software and imaging software license revenues, for which the average deal size was smaller compared to a year ago. We believe our customers are continuing to postpone major capital investments in technology, including software, due to the slowly recovering economy. In addition, our customers are increasingly electing to contract for our products via outsourced delivery rather than a traditional license agreement. Our outsourced delivery does not require our customers to make a large, up-front capital investment in license fees.

### Support and Service Revenue

|                             | <u>Year ended June 30,</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2011</u>                | <u>2010</u> |                 |
| Support and service         | \$ 852,253                 | \$ 720,504  | 18%             |
| Percentage of total revenue | 88%                        | 86%         |                 |

|                                   | <u>Year Over Year Change</u> |                 |
|-----------------------------------|------------------------------|-----------------|
|                                   | <u>\$ Change</u>             | <u>% Change</u> |
| In-House Support & Other Services | \$ 16,286                    | 6%              |
| Electronic Payment Services       | 93,870                       | 43%             |

|                         |                   |     |
|-------------------------|-------------------|-----|
| Outsourcing Services    | 15,574            | 10% |
| Implementation Services | 6,019             | 9%  |
| <b>Total Increase</b>   | <b>\$ 131,749</b> |     |

Support and service revenues are generated from implementation services (including conversion, installation, configuration and training), annual support to assist the customer in operating their systems and to enhance and update the software, outsourced data processing services and electronic payment services. There was strong growth in all support and service revenue components in fiscal 2011.

In-house support and other services revenue increased as the acquisition of GFSI contributed additional revenue of \$5,648 compared to a year ago. Additionally, annual maintenance fees have increased as our customers' assets have grown and revenue from our complementary products has grown as the total number of supported in-house customers has grown.

Electronic payment services includes ATM, debit and credit card transaction processing, online bill payment services, remote deposit capture and transaction processing services, with revenues being primarily derived from transaction fees typically under five-year service contracts with our customers. Electronic payment services continued to experience the largest percentage revenue growth. The revenue growth is attributable to the acquisitions of GFSI, PTSI and iPay, which combined to add \$68,663 during the current year, and organic revenue growth within electronic payment services, excluding the effects of the acquisitions, continues to be strong with an increase of 12% over the prior fiscal year.

Outsourcing services are performed through our data and item processing centers, with revenues primarily derived from monthly usage or transaction fees typically under five-year service contracts with our customers. Outsourcing services for banks and credit unions continue to drive revenue growth as customers continue to choose outsourcing for the delivery of our solutions. We expect the trend towards outsourced product delivery to benefit outsourcing services revenue for the foreseeable future.

The increase in implementation services revenue is primarily related to acquisition related revenues of \$2,683 for GFSI (acquired in the second quarter of fiscal 2010) and increased revenue from merger conversions of \$3,754 for existing customers that acquired other financial institutions.

#### Hardware Revenue

|                             | <u>Year ended June 30,</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2011</u>                | <u>2010</u> |                 |
| Hardware                    | \$ 61,577                  | \$ 63,857   | -4%             |
| Percentage of total revenue | 6%                         | 8%          |                 |

The Company has entered into remarketing agreements with several hardware manufacturers under which we sell computer hardware, hardware maintenance and related services to our customers. Revenue related to hardware sales is recognized when the hardware is shipped to our customers.

Hardware revenue decreased slightly due to a decrease in the number of hardware systems and components delivered compared to last year. Hardware revenue has been generally commensurate with the trends in license revenue; however, we expect the overall decreasing trend in hardware sales to continue due to the trend towards outsourcing



contracts, which typically do not include hardware.

## **COST OF SALES AND GROSS PROFIT**

Cost of license represents the cost of software from third party vendors through remarketing agreements associated with license fee revenue. These costs are recognized when license revenue is recognized. Cost of support and service represents costs associated with conversion and implementation efforts, ongoing support for our in-house customers, operation of our data and item centers providing services for our outsourced customers, electronic payment services and direct operating costs. These costs are recognized as they are incurred. Cost of hardware consists of the direct and indirect costs of purchasing the equipment from the manufacturers and delivery to our customers. These costs are recognized at the same time as the related hardware revenue is recognized. Ongoing operating costs to provide support to our customers are recognized as they are incurred.

### **Cost of Sales and Gross Profit**

|   | <u>Year ended June 30,</u> |             | <u>% Change</u> |
|---|----------------------------|-------------|-----------------|
|   | <u>2011</u>                | <u>2010</u> |                 |
| <b>Cost of License</b>                  | \$ 6,285                   | \$ 5,827    | <b>8%</b>       |
| Percentage of total revenue             | 1%                         | 1%          |                 |
| <b>License Gross Profit</b>             | \$ 46,782                  | \$ 46,398   | <b>1%</b>       |
| Gross Profit Margin                     | 88%                        | 89%         |                 |
| <b>Cost of support and service</b>      | \$ 515,917                 | \$ 438,476  | <b>18%</b>      |
| Percentage of total revenue             | 53%                        | 52%         |                 |
| <b>Support and Service Gross Profit</b> | \$ 336,336                 | \$ 282,028  | <b>19%</b>      |
| Gross Profit Margin                     | 39%                        | 39%         |                 |
| <b>Cost of hardware</b>                 | \$ 45,361                  | \$ 47,163   | <b>-4%</b>      |
| Percentage of total revenue             | 5%                         | 6%          |                 |
| <b>Hardware Gross Profit</b>            | \$ 16,216                  | \$ 16,694   | <b>-3%</b>      |
| Gross Profit Margin                     | 26%                        | 26%         |                 |
| <b>TOTAL COST OF SALES</b>              | \$ 567,563                 | \$ 491,466  | <b>15%</b>      |
| Percentage of total revenue             | 59%                        | 59%         |                 |
| <b>TOTAL GROSS PROFIT</b>               | \$ 399,334                 | \$ 345,120  | <b>16%</b>      |
| Gross Profit Margin                     | 41%                        | 41%         |                 |

Cost of license depends greatly on third party reseller agreement software vendor costs. During the current year, these costs have increased as a percentage of license revenue as complementary software sales that have associated third party vendor costs have increased.

Cost of support and service increased for the year commensurate with the increase in support and services revenue. Support and service gross profit has increased over the prior year as a result of the acquisitions of GFSI, PTSI and iPay, which combined to contribute additional support and service gross profit of \$38,177 over last year. Support and

service gross profit margin remained consistent year over year with the additional combined margins for GFSI and iPay of 45% being offset by lower margins achieved for PTSI of 30%.

Cost of hardware has fluctuated in line with hardware revenue for the current year.

## OPERATING EXPENSES

### Selling and Marketing

|                             | <u>Year ended June 30.</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2011</u>                | <u>2010</u> |                 |
| Selling and marketing       | \$ <b>68,061</b>           | \$ 60,875   | <b>12%</b>      |
| Percentage of total revenue | <b>7%</b>                  | 7%          |                 |

Dedicated sales forces, inside sales teams, technical sales support teams and channel partners conduct our sales efforts for our two market segments, and are overseen by regional sales managers. Our sales executives are responsible for pursuing lead generation activities for new core customers. Our account executives nurture long-term relationships with our client base and cross sell our many complementary products and services.

For the 2011 fiscal year, selling and marketing expenses increased primarily due to increasing personnel costs, including commission expenses, for the additional employees acquired in the fiscal 2010 acquisitions, which added \$6,001 to this line during the current year. Selling and marketing expenses have remained consistent as a percentage of total revenue due to the continued focus on cost management throughout the Company.

### Research and Development

|                             | <u>Year ended June 30.</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2011</u>                | <u>2010</u> |                 |
| Research and development    | \$ <b>63,395</b>           | \$ 50,820   | <b>25%</b>      |
| Percentage of total revenue | <b>7%</b>                  | 6%          |                 |

We devote significant effort and expense to develop new software, service products and continually upgrade and enhance our existing offerings. Typically, we upgrade our various core and complementary software applications once per year. We believe our research and development efforts are highly efficient because of the extensive experience of our research and development staff and because our product development is highly customer-driven.

Research and development expenses increased due to the acquisitions in fiscal 2010 and increased personnel, consultant, and independent contractor costs compared to the same period a year ago. This also caused the increase from 6% of total revenue in fiscal 2010 to 7% in fiscal 2011.

### General and Administrative

|  | <u>Year ended June 30.</u> |             | <u>% Change</u> |
|--|----------------------------|-------------|-----------------|
|  | <u>2011</u>                | <u>2010</u> |                 |

|                             |    |               |    |        |           |
|-----------------------------|----|---------------|----|--------|-----------|
| General and administrative  | \$ | <b>51,561</b> | \$ | 51,172 | <b>1%</b> |
| Percentage of total revenue |    | <b>5%</b>     |    | 6%     |           |

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs.

General and administrative expenses increased slightly for the year due to additional personnel and other costs from the prior year acquisitions. This increase was partially offset by one-time acquisition transaction costs incurred in fiscal 2010 of \$4,237 with no comparable costs in fiscal 2011.

### **INTEREST INCOME (EXPENSE)**

Interest income decreased 22% from \$161 to \$125 due primarily to lower interest rates on invested balances. Interest expense increased from \$1,618 to \$8,930 due to increased borrowings made in the fourth quarter of fiscal 2010 to consummate the acquisition of iPay.

### **PROVISION FOR INCOME TAXES**

The provision for income taxes was \$70,041 or 33.8% of income before income taxes in fiscal 2011 compared with \$62,926 or 34.8% of income before income taxes fiscal 2010. The decrease in the effective tax rate was primarily due to the extension of the Research and Experimentation Credit ( R&E Credit ), effective January 1, 2010, as well as the increase in the applicable deduction percentage for Domestic Production Activities (IRC Section 199), effective for fiscal 2011.

### **NET INCOME**

Net income increased, moving from \$117,870, or \$1.38 per diluted share in fiscal 2010 to \$137,471, or \$1.59 per diluted share in fiscal 2011.

### **FISCAL 2010 COMPARED TO FISCAL 2009**

In fiscal 2010, revenues increased 12% or \$90,993 compared to the prior year due primarily to the current year acquisition of GFSI, PTSI and iPay. During fiscal 2010, the Company's management engaged in various cost-cutting efforts that, when combined with the growth in revenue, resulted in a 14% increase in net income.

The US financial crisis is a primary concern at this time as it affects our customers and our industry. The profits of many financial institutions have decreased and this has resulted in some reduction of demand for new products and services. We remain cautiously optimistic, however, with increasing portions of our business coming from recurring revenue, increases in backlog and an encouraging sales pipeline in specific areas. Our customers will continue to face regulatory and operational challenges which our products and services address, and in these times they have an even greater need for some of our solutions that directly address institutional profitability and efficiency. We face these times with a strong balance sheet and an unwavering commitment to superior customer service, and we believe that we are well positioned to address current opportunities as well as those which will arise when the economic rebound strengthens. Our cautious optimism has been expressed through our acquisitions of GFSI, PTSI and iPay during the year ended June 30, 2010. These are the three largest acquisitions in our Company's history and present us with opportunities to extend our customer base and produce returns for our stockholders.

**REVENUE***License Revenue*

|                             | <u>Year Ended June 30.</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2010</u>                | <u>2009</u> |                 |
| License                     | \$ 52,225                  | \$ 58,434   | -11%            |
| Percentage of total revenue | 6%                         | 8%          |                 |

License revenue represents the delivery and acceptance of application software systems contracted with us by the customer. We license our proprietary software products under standard license agreements that typically provide the customer with a non-exclusive, non-transferable right to use the software on a single computer and for a single financial institution location.

The decrease in license revenue for the current year is due mostly to decreases in complementary product license revenue compared to the prior year. Overall, license revenue from our core software products were up 16% from the prior year. In addition, our acquisition of GFSI in October added \$5,638 in license revenue during fiscal 2010. These gains were more than offset by decreases in license revenue for most of our complementary software products. These decreases in complementary software product license revenue result from the recent economic downturn, as we have seen some of our customers postpone making non-essential capital investments in technology, including software. In addition, our customers are often electing to contract for our products via outsourced delivery rather than a traditional license agreement. Our outsourced delivery does not require our customers to make a large, up-front capital investment in license fees or hardware.

*Support and Service Revenue*

|                             | <u>Year Ended June 30.</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2010</u>                | <u>2009</u> |                 |
| Support and service         | \$ 720,504                 | \$ 614,242  | +17%            |
| Percentage of total revenue | 86%                        | 82%         |                 |

**Year Over Year Change**

|                                   | <u>\$ Change</u>        | <u>% Change</u> |
|-----------------------------------|-------------------------|-----------------|
| In-House Support & Other Services | \$ 17,952               | 7%              |
| EFT Support                       | 67,451                  | 45%             |
| Outsourcing Services              | 15,223                  | 11%             |
| Implementation Services           | <u>5,636</u>            | 10%             |
| <b>Total Increase</b>             | <b><u>\$106,262</u></b> |                 |

Support and service revenues are generated from implementation services (including conversion, installation, configuration and training), annual support to assist the customer in operating their systems and to enhance and update

the software, outsourced data processing services and EFT Support services.

There was strong growth in all support and service revenue components in fiscal 2010. In-house support and other services increased mostly as a result of the acquisition of GFSI, which added revenue of \$15,527 since acquisition.

EFT support experienced the largest percentage growth. Most of the revenue growth in EFT is attributable to the acquisition of GFSI, PTSI and iPay. Combined, the acquisitions added \$55,020 to this line during the current year. However, organic revenue growth within EFT support continues to be strong with an increase of 8% over the prior fiscal year.

Outsourcing services for banks and credit unions continue to drive revenue growth as customers continue to choose outsourcing for the delivery of our solutions. We expect the trend towards outsourced product delivery to benefit outsourcing services revenue for the foreseeable future.

The increase in implementation services revenue is primarily related to the acquisition of GFSI, which added \$4,452 in implementation revenue for the current year.

### *Hardware Revenue*

|                             | <u>Year Ended June 30.</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2010</u>                | <u>2009</u> |                 |
| Hardware                    | \$ 63,857                  | \$ 72,917   | -12%            |
| Percentage of total revenue | 8%                         | 10%         |                 |

The Company has entered into remarketing agreements with several hardware manufacturers under which we sell computer hardware, hardware maintenance and related services to our customers. Revenue related to hardware sales is recognized when the hardware is shipped to our customers.

Hardware revenue decreased mainly due to a decrease in the number of hardware systems and components delivered in the current year compared to a year ago. Hardware revenue has been generally commensurate with the trends in license revenue; however, while hardware revenue has benefitted from the acquisition of GFSI, it has not benefitted to the same degree as license revenue. GFSI added hardware revenue of \$1,301 since its acquisition.

### **COST OF SALES AND GROSS PROFIT**

Cost of license represents the cost of software from third party vendors through remarketing agreements. These costs are recognized when license revenue is recognized. Cost of support and service represents costs associated with conversion and implementation efforts, ongoing support for our in-house customers, operation of our data and item centers providing services for our outsourced customers, EFT processing services and direct operating costs. These costs are recognized as they are incurred. Cost of hardware consists of the direct and related costs of purchasing the equipment from the manufacturers and delivery to our customers. These costs are recognized at the same time as the related hardware revenue is recognized. Ongoing operating costs to provide support to our customers are recognized as they are incurred.

### *Cost of Sales and Gross Profit*

|  | <u>Year Ended June 30.</u> | <u>% Change</u> |
|--|----------------------------|-----------------|
|--|----------------------------|-----------------|

|   | <u>2010</u> | <u>2009</u> |             |
|---|-------------|-------------|-------------|
| <b>Cost of License</b>                  | \$ 5,827    | \$ 6,885    | <b>-15%</b> |
| Percentage of total revenue             | 1%          | 1%          |             |
| <b>License Gross Profit</b>             | \$ 46,398   | \$ 51,549   | <b>-10%</b> |
| Gross Profit Margin                     | 89%         | 88%         |             |
| <b>Cost of support and service</b>      | \$ 438,476  | \$ 385,837  | <b>+14%</b> |
| Percentage of total revenue             | 52%         | 52%         |             |
| <b>Support and Service Gross Profit</b> | \$ 282,028  | \$ 228,405  | <b>+23%</b> |
| Gross Profit Margin                     | 39%         | 37%         |             |
| <b>Cost of hardware</b>                 | \$ 47,163   | \$ 53,472   | <b>-12%</b> |
| Percentage of total revenue             | 6%          | 7%          |             |
| <b>Hardware Gross Profit</b>            | \$ 16,694   | \$ 19,445   | <b>-14%</b> |
| Gross Profit Margin                     | 26%         | 27%         |             |
| <b>TOTAL COST OF SALES</b>              | \$ 491,466  | \$ 446,194  | <b>+10%</b> |
| Percentage of total revenue             | 59%         | 60%         |             |
| <b>TOTAL GROSS PROFIT</b>               | \$ 345,120  | \$ 299,399  | <b>+15%</b> |
| Gross Profit Margin                     | 41%         | 40%         |             |

The current year decrease in cost of license is generally commensurate with the related trends in license revenue. Cost of license depends greatly on third party reseller agreement software vendor costs. During the current year, these costs have decreased as a percentage of license revenue as complementary software sales that have associated third party vendor costs have decreased.

Cost of support and service increased for the year commensurate with the increase in support and services revenue. Combined, the companies acquired during fiscal 2010 added \$50,480 to this line. Support and services gross profit margin has increased for the year due to cost control measures undertaken by the Company and as EFT support services, with higher margins than other components of Support and services revenue, have become a larger percentage of that revenue line.

Cost of hardware has fluctuated in line with hardware revenue for the current year, with slightly leaner margins resulting from a shift in sales mix.

## OPERATING EXPENSES

### *Selling and Marketing*

|                             | <u>Year Ended June 30,</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2010</u>                | <u>2009</u> |                 |
| Selling and marketing       | \$ 60,875                  | \$ 54,931   | <b>+11%</b>     |
| Percentage of total revenue | 7%                         | 7%          |                 |

Dedicated sales forces, inside sales teams, technical sales support teams and channel partners conduct our sales efforts for our two market segments, and are overseen by regional sales managers. Our sales executives are responsible for pursuing lead generation activities for new core customers. Our account executives nurture long-term relationships with our client base and cross sell our many complementary products and services.

For the 2010 fiscal year, selling and marketing expenses increased primarily due to current year acquisitions, which added \$10,272 to this line during the current year. The acquisition-related increases were partially offset by decreases in selling and marketing personnel costs throughout the rest of the Company, which were the result of cost-cutting measures undertaken by management.

### *Research and Development*

|                             | <u>Year Ended June 30.</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2010</u>                | <u>2009</u> |                 |
| Research and development    | \$ 50,820                  | \$ 42,901   | +18%            |
| Percentage of total revenue | 6%                         | 6%          |                 |

We devote significant effort and expense to develop new software, service products and continually upgrade and enhance our existing offerings. Typically, we upgrade our various core and complementary software applications once per year. We believe our research and development efforts are highly efficient because of the extensive experience of our research and development staff and because our product development is highly customer-driven.

Research and development expenses increased for the current year due primarily to current year acquisitions, which added \$8,126 in expense during fiscal 2010.

### *General and Administrative*

|                             | <u>Year Ended June 30.</u> |             | <u>% Change</u> |
|-----------------------------|----------------------------|-------------|-----------------|
|                             | <u>2010</u>                | <u>2009</u> |                 |
| General and administrative  | \$ 51,172                  | \$ 43,681   | +17%            |
| Percentage of total revenue | 6%                         | 6%          |                 |

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs. General and administrative expenses increased for the year due to current year acquisitions, including costs directly related to the acquisition transactions. Combined, the acquired companies added \$7,700 of general and administrative costs during fiscal 2010, including \$4,237 of one-time acquisition transaction costs.

### **INTEREST INCOME (EXPENSE)**

Interest income decreased 79% from \$781 to \$161 due primarily to lower interest rates on invested balances. Interest expense increased 19% from \$1,357 to \$1,618 due to primarily to borrowings made in the fourth quarter of fiscal 2010 to consummate the acquisition of iPay.

**PROVISION FOR INCOME TAXES**

The provision for income taxes was \$62,926 or 34.8% of income before income taxes in fiscal 2010 compared with \$54,208 or 34.5% of income before income taxes fiscal 2009. The increase was primarily due to the expiration of the Research and Experimentation Credit ( R&E Credit ), effective January 1, 2010, as well as increases in the rate at which deferred tax liabilities are expected to reverse in future years. These increases were mostly offset by additional benefits received through an extensive analysis of the Domestic Production Activities Deduction (IRC Section 199).

**NET INCOME**

Net income increased, moving from \$103,102, or \$1.22 per diluted share in fiscal 2009 to \$117,870, or \$1.38 per diluted share in fiscal 2010.

**BUSINESS SEGMENT DISCUSSION***Bank Systems and Services*

|                     | <b>2011</b>      | <b>% Change</b> | <b>2010</b> | <b>% Change</b> | <b>2009</b> |
|---------------------|------------------|-----------------|-------------|-----------------|-------------|
| Revenue             | <b>\$746,892</b> | 11%             | \$672,282   | 9%              | \$617,711   |
| Gross Profit        | <b>\$315,994</b> | 12%             | \$283,100   | 14%             | \$247,812   |
| Gross Profit Margin | <b>42%</b>       |                 | 42%         |                 | 40%         |

In fiscal 2011, revenue increased 11% overall in the bank systems and services business segment compared to the prior year. The increase is due primarily to the acquisitions of GFSI and iPay, which added \$40,150 of additional revenue in fiscal 2011, mainly in support and services in the bank systems and services business segment which increased 14% over the prior year, coupled with electronic payment services organic revenue growth of nearly 12% over the prior year. Gross profit margin remained consistent year over year, with GFSI and iPay margins performing within expectations.

In fiscal 2010, revenue increased 9% overall in the bank systems and services business segment compared to the prior year. Most of the increase is due to the acquisition of GFSI, which added \$44,794 of revenue in fiscal 2010. In addition, EFT support experienced organic revenue growth of nearly 10% over the prior year and Data Center Maintenance had organic growth of 12% within the bank systems and services business segment. Gross profit margin increased from the prior year primarily due to cost control measures, particularly related to personnel costs, undertaken by management during fiscal 2010.

*Credit Union Systems and Services*

|                     | <b>2011</b>      | <b>% Change</b> | <b>2010</b> | <b>% Change</b> | <b>2009</b> |
|---------------------|------------------|-----------------|-------------|-----------------|-------------|
| Revenue             | <b>\$220,005</b> | 34%             | \$164,304   | 28%             | \$127,882   |
| Gross Profit        | <b>\$ 83,340</b> | 34%             | \$ 62,020   | 20%             | \$ 51,587   |
| Gross Profit Margin | <b>38%</b>       |                 | 38%         |                 | 40%         |



In fiscal 2011, revenues in the credit union systems and services business segment increased 34% from fiscal 2010. All components of revenue increased, particularly support and service revenue, which increased by 38% over the prior year. This was due primarily to the acquisitions of PTSI and iPay, which added revenue of \$38,482 to current year revenue, and electronic payment services which experienced 11% organic revenue growth. Gross profit margins have remained constant as a result of strong iPay margins being offset by slightly lower margins from the PTSI products.

In fiscal 2010, revenues in the credit union systems and services business segment increased 28% from fiscal 2009. Support and service revenue, which is the largest component of total revenues for the credit union segment, experienced strong growth in most revenue components. In particular, EFT Support experienced 163% revenue growth over the prior year due primarily to the acquisition of PTSI, which added revenue of \$33,839 to fiscal 2011 revenue. Gross profit margins decreased from the prior year as license revenue, which carries the largest margins, decreased as a percentage of total revenue.

## LIQUIDITY AND CAPITAL RESOURCES

We have historically generated positive cash flow from operations and have generally used funds generated from operations and short-term borrowings on our revolving credit facility to meet capital requirements. We expect this trend to continue in the future.

The Company's cash and cash equivalents decreased to \$63,125 at June 30, 2011 from \$125,518 at June 30, 2010. The decrease is primarily due to the repayment of long and short term debt in the year.

The following table summarizes net cash from operating activities in the statement of cash flows:

|  | 2011             | Year ended June 30,<br>2010 | 2009       |
|--|------------------|-----------------------------|------------|
| Net income                             | <b>\$137,471</b> | \$ 117,870                  | \$ 103,102 |
| Non-cash expenses                      | <b>116,788</b>   | 92,317                      | 74,397     |
| Change in receivables                  | <b>940</b>       | (1,539)                     | 21,214     |
| Change in deferred revenue             | <b>19,487</b>    | 10,775                      | 21,943     |
| Change in other assets and liabilities | <b>(34,554)</b>  | (725)                       | (14,068)   |
| Net cash from operating activities     | <b>\$240,132</b> | \$ 218,698                  | \$ 206,588 |

Cash provided by operations increased 10% for the fiscal year ended June 30, 2011 compared to the prior fiscal year. This increase is primarily attributable to the increase in net income, which grew through continued strong organic growth and the incremental earnings provided by the fiscal 2010 acquisitions.

Cash used in investing activities for the fiscal year ended June 2011 included capital expenditures on facilities and equipment of \$32,085, including computer equipment purchases and the final costs relating to the construction of our new Branson, Missouri and Springfield, Missouri facilities. Other major uses of cash included \$26,954 for the development of software. Cash used in investing activities for the fiscal year ended June 2010 was \$505,715 and includes a net cash outlay for acquisitions of \$426,652, capital expenditures of \$54,509, and capitalized software development of \$25,586.

Net cash from financing activities for the current fiscal year includes \$229,455 net repayment on our credit facilities and the payment of dividends of \$34,391. Cash used was partially offset by net proceeds of \$20,359 from the exercise of stock options, the sale of common stock (through the employee stock purchase plan) and excess tax benefits from stock option exercises. During fiscal 2010, net cash from financing activities for the current fiscal year was \$294,284 and includes \$303,160 net borrowing on our credit facilities, proceeds of \$28,522 from the exercise of stock options and the sale of common stock (through the employee stock purchase plan) and \$661 excess tax benefits from stock option exercises. Cash from financing activities was partially offset by the payment of dividends of \$30,461 and debt acquisition costs of \$7,598.

At June 30, 2011, the Company had negative working capital of \$26,561; however, the largest component of current liabilities was deferred revenue of \$276,837, which primarily relates to our annual in-house maintenance agreements. The cash outlay necessary to provide the services related to these deferred revenues is significantly less than this recorded balance. In addition, we continue to have access to unused lines of credit in excess of \$160,000 and continue to generate substantial cash inflows from operations. Therefore, we do not anticipate any liquidity problems arising from this condition.

US financial markets and many of the largest US financial institutions have been shaken by negative developments over the last three years in the mortgage markets and the general economy. While the effects of these events continue to impact our customers, we have not experienced any significant issues with our current collection efforts, and we believe that any future impact to our liquidity would be minimized by our access to available lines of credit.

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures in the fiscal year were made primarily for additional equipment, new facilities, and the improvement of existing facilities. These additions were funded from cash generated by operations.

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves of short-term borrowings on its existing credit facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2011, there were 14,407 shares in treasury stock and the Company had the remaining authority to repurchase up to 5,584 additional shares. The total cost of treasury shares at June 30, 2011 is \$309,585. There were no repurchases of treasury stock in fiscal 2011 or 2010.

On August 19, 2011, the Company's Board of Directors declared a cash dividend of \$0.105 per share on its common stock payable on September 28, 2011, to stockholders of record on September 8, 2011. Current funds from operations are adequate for this purpose. The Board has indicated that it plans to continue paying dividends as long as the Company's financial picture continues to be favorable.

The Company has a bank credit facility agreement that includes a revolving loan, a term loan and a bullet term loan.

#### *Revolving credit facilities*

The revolving loan allows short-term borrowings of up to \$150,000, which may be increased by the Company at any time until maturity to \$250,000. The revolving loan terminates June 4, 2015. At June 30, 2011, no amount was outstanding.

#### *Term loan*

The term loan has an original principal balance of \$150,000, with quarterly principal payments of \$5,625 beginning on September 30, 2011, and the remaining balance due June 4, 2015. At June 30, 2011, the outstanding balance was bearing interest at a rate of 2.25%. Of the \$150,000 outstanding, \$22,500 will be maturing within the next twelve months.

*Bullet term loan*

The bullet term loan had an original principal balance of \$100,000. The full balance, which would have been due on December 4, 2010, was paid in full on July 8, 2010.

Each of the above loans bear interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate or (c) LIBOR plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The loans are secured by pledges of capital stock of certain subsidiaries of the Company. The loans are also guaranteed by certain subsidiaries of the Company. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of June 30, 2011, the Company was in compliance with all such covenants.

*Capital leases*

The Company has entered into various capital lease obligations for the use of certain computer equipment. At June 30, 2011, \$3,016 was outstanding, all of which will be maturing in the next twelve months. Included in property and equipment are assets under capital leases totaling \$5,540, which have accumulated depreciation totaling \$365.

*Other lines of credit*

The Company has an unsecured bank credit line which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (2.25% at June 30, 2011). The credit line was renewed through April 29, 2012. At June 30, 2011, no amount was outstanding.

The Company renewed a bank credit line on March 7, 2011 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25% at June 30, 2011). The credit line expires March 7, 2012 and is secured by \$1,000 of investments. At June 30, 2011, no amount was outstanding.

**OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

At June 30, 2011 the Company's total off balance sheet contractual obligations were \$36,887. This balance consists of \$26,187 of long-term operating leases for various facilities and equipment which expire from 2012 to 2017 and the remaining \$10,700 is for purchase commitments related to property and equipment. The table excludes \$9,399 of liabilities for uncertain tax positions as we are unable to reasonably estimate the ultimate amount or timing of settlement.

| Contractual obligations by period as of June 30, 2011 | Less than 1 year | 1-3 years | 3-5 years | More than 5 years | TOTAL      |
|---|------------------|-----------|-----------|-------------------|------------|
| Operating lease obligations                           | \$ 7,185         | \$ 10,511 | \$ 7,004  | \$ 1,487          | \$ 26,187  |
| Capital lease obligations                             | 3,016            | -         | -         | -                 | 3,016      |
| Notes payable, including accrued interest             | 23,087           | 45,431    | 82,508    | -                 | 151,026    |
| Purchase obligations                                  | 10,700           | -         | -         | -                 | 10,700     |
| Total   | \$ 43,988        | \$ 55,942 | \$ 89,512 | \$ 1,487          | \$ 190,929 |

**RECENT ACCOUNTING PRONOUNCEMENTS**

In October 2009, the FASB issued Accounting Standards Update ( ASU ) No. 2009-13, Multiple-Deliverable Revenue Arrangements, which is effective for arrangements beginning or changed during fiscal years starting after June 15, 2010. This new standard eliminates the use of the residual method of revenue recognition and requires the allocation of consideration to each deliverable using the relative selling price method. This new guidance did not have a material impact on revenue recognition because nearly all of the Company's revenue arrangements are subject to Accounting Standards Codification ( ASC ) Topic 985. Such arrangements are considered out of scope for this ASU.

In October 2009, the FASB also issued ASU No. 2009-14, Software: Certain Revenue Arrangements that Include Software Elements, which is also effective for arrangements beginning or changed during fiscal years starting after June 15, 2010. This revision to Software (Topic 985) drops from its scope all tangible products containing both software and non-software components that operate together to deliver the product's functions. The majority of the Company's software arrangements are not tangible products with software components; therefore, this update did not materially impact the company.

The FASB issued ASU No. 2011-04, Fair Value Measurement in May 2011, which is effective for the Company beginning July 1, 2012 and is to be applied prospectively. The updated explanatory guidance on measuring fair value will be adopted by the Company at that time and is not expected to have a significant impact on our fair value calculations. No additional fair value measurements are required as a result of the update.

The FASB also issued ASU No. 2011-05, Comprehensive Income in June 2011, which is effective for the Company beginning January 1, 2012 and will be applied retrospectively. The updated guidance requires non-owner changes in stockholders' equity to be reported either in a single continuous statement of comprehensive income or in two separate but consecutive statements, rather than as part of the statement of changes in stockholders' equity. No changes in disclosure will be required as a result of the update.

## **CRITICAL ACCOUNTING POLICIES**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ). The significant accounting policies are discussed in Note 1 to the consolidated financial statements. The preparation of consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, as well as disclosure of contingent assets and liabilities. We base our estimates and judgments upon historical experience and other factors believed to be reasonable under the circumstances. Changes in estimates or assumptions could result in a material adjustment to the consolidated financial statements.

We have identified several critical accounting estimates. An accounting estimate is considered critical if both: (a) the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment involved, and (b) the impact of changes in the estimates and assumptions would have a material effect on the consolidated financial statements.

### **Revenue Recognition**

We recognize revenue in accordance with generally accepted accounting principles and with guidance provided within Staff Accounting Bulletins issued by the Securities and Exchange Commission. The application of these pronouncements requires judgment, including whether a software arrangement includes multiple elements, whether any elements are essential to the functionality of any other elements, and whether vendor-specific objective evidence ( VSOE ) of fair value exists for those elements. Customers receive certain elements of our products over time. Changes to the elements in a software arrangement or in our ability to identify VSOE for those elements could materially impact the amount of earned and unearned revenue reflected in the financial statements.

*License Fee Revenue.* For software license agreements that do not require significant modification or customization of the software, the Company recognizes software license revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred, the license fee is fixed and determinable and collection is probable. The Company's software license agreements generally include multiple products and services or elements. None of these elements alone are deemed to be essential to the functionality of the other elements. Generally accepted accounting principles require revenue earned on software arrangements involving multiple elements to be allocated to each element based on VSOE of fair value. Fair value is determined for license fees based upon the price charged when sold separately. When we determine that VSOE does not exist for one or more of the delivered elements of a software arrangement, but does exist for all of the undelivered elements, revenue is recognized following the residual method allowed by current accounting pronouncements. Under the residual method, a residual amount of the total arrangement fee is recognized as revenue for the delivered elements after the established fair value of all undelivered elements has been deducted.

*Support and Service Fee Revenue.* Implementation services are generally for installation, implementation, and configuration of our systems and for training of our customer's employees. These services are not considered essential to the functionality of the related software. VSOE of fair value is established by pricing used when these services are sold separately. Generally, revenue is recognized when services are completed. On certain larger implementations, revenue is recognized based on milestones during the implementation. Milestones are triggered by tasks completed or based on direct labor hours.

Maintenance support revenue is recognized pro-rata over the contract period, typically one year. VSOE of fair value is determined based on contract renewal rates.

Outsourced data processing services and ATM, debit card, and other transaction processing services revenues are recognized in the month the transactions were processed or the services were rendered.

*Hardware Revenue:* Hardware revenue is recognized upon delivery to the customer, when title and risk of loss are transferred. In most cases, we do not stock in inventory the hardware products we sell, but arrange for third-party suppliers to drop-ship the products to our customers on our behalf. Some of our hardware revenues are derived under arrangements as defined within U.S. GAAP. To the extent hardware revenue is part of such an arrangement and is not deemed essential to the functionality of any of the other elements to the arrangement, it is recognized based on VSOE of fair value at the time of delivery. The Company also remarkets maintenance contracts on hardware to our customers. Hardware maintenance revenue is recognized ratably over the agreement period.

### **Depreciation and Amortization Expense**

The calculation of depreciation and amortization expense is based on the estimated economic lives of the underlying property, plant and equipment and intangible assets, which have been examined for their useful life and determined that no impairment exists. We believe it is unlikely that any significant changes to the useful lives of our tangible and intangible assets will occur in the near term, but rapid changes in technology or changes in market conditions could result in revisions to such estimates that could materially affect the carrying value of these assets and the Company's future consolidated operating results. All long lived assets are tested for valuation and potential impairment on a scheduled annual basis.

### **Capitalization of software development costs**

We capitalize certain costs incurred to develop commercial software products and to develop or purchase internal-use software. Significant estimates and assumptions include: determining the appropriate period over which to amortize the capitalized costs based on the estimated useful lives, estimating the marketability of the commercial software products and related future revenues, and assessing the unamortized cost balances for impairment. For commercial software products, determining the appropriate amortization period is based on estimates of future revenues from sales

of the products. We consider various factors to project marketability and future revenues, including an assessment of alternative solutions or products, current and historical demand for the product, and anticipated changes in technology that may make the product obsolete. A significant change in an estimate related to one or more software products could result in a material change to our results of operations.

#### **Estimates used to determine current and deferred income taxes**

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We also must determine the likelihood of recoverability of deferred tax assets, and adjust any valuation allowances accordingly. Considerations include the period of expiration of the tax asset, planned use of the tax asset, and historical and projected taxable income as well as tax liabilities for the tax jurisdiction to which the tax asset relates. Valuation allowances are evaluated periodically and will be subject to change in each future reporting period as a result of changes in one or more of these factors. Also, liabilities for uncertain tax positions require significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect our financial results.

#### **Assumptions related to purchase accounting and goodwill**

We account for our acquisitions using the purchase method of accounting. This method requires estimates to determine the fair values of assets and liabilities acquired, including judgments to determine any acquired intangible assets such as customer-related intangibles, as well as assessments of the fair value of existing assets such as property and equipment. Liabilities acquired can include balances for litigation and other contingency reserves established prior to or at the time of acquisition, and require judgment in ascertaining a reasonable value. Third party valuation firms may be used to assist in the appraisal of certain assets and liabilities, but even those determinations would be based on significant estimates provided by us, such as forecasted revenues or profits on contract-related intangibles. Numerous factors are typically considered in the purchase accounting assessments, which are conducted by Company professionals from legal, finance, human resources, information systems, program management and other disciplines. Changes in assumptions and estimates of the acquired assets and liabilities would result in changes to the fair values, resulting in an offsetting change to the goodwill balance associated with the business acquired.

As goodwill is not amortized, goodwill balances are regularly assessed for potential impairment. Such assessments require an analysis of future cash flow projections as well as a determination of an appropriate discount rate to calculate present values. Cash flow projections are based on management-approved estimates, which involve the input of numerous Company professionals from finance, operations and program management. Key factors used in estimating future cash flows include assessments of labor and other direct costs on existing contracts, estimates of overhead costs and other indirect costs, and assessments of new business prospects and projected win rates. The Company's most recent assessment indicates that no reporting units are currently at risk of impairment; however, significant changes in the estimates and assumptions used in purchase accounting and goodwill impairment testing could have a material effect on the consolidated financial statements.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, indices, volatilities, correlations or other market factors such as liquidity, will result in losses for a certain financial instrument or group of financial instruments. We are currently exposed to credit risk on credit extended to customers and interest risk on outstanding debt. We do not currently use any derivative financial instruments. We actively monitor these risks

through a variety of controlled procedures involving senior management.

Based on the controls in place and the credit worthiness of the customer base, we believe the credit risk associated with the extension of credit to our customers will not have a material adverse effect on our consolidated financial position or results of operations.

Based on our outstanding debt with variable interest rates as of June 30, 2011, a 1% increase in our borrowing rate would increase annual interest expense in fiscal 2012 by approximately \$1,500.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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Financial Statement Schedules

There are no schedules included because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Jack Henry & Associates, Inc.

Monett, Missouri

We have audited the accompanying consolidated balance sheets of Jack Henry & Associates, Inc. and subsidiaries (the Company ) as of June 30, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Jack Henry & Associates, Inc. and subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 29, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Kansas City, Missouri

August 29, 2011



## MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Jack Henry & Associates, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes policies and procedures pertaining to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements. All internal controls, no matter how well designed, have inherent limitations. Therefore, even where internal control over financial reporting is determined to be effective, it can provide only reasonable assurance. Projections of any evaluation of effectiveness to future periods are subject to the risk controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Management's annual report on internal control over financial reporting now includes an assessment of the internal control over financial reporting of iPay Technologies Holding Company, LLC, acquired on June 4, 2010, which was excluded from the fiscal 2010 annual report on internal control over financial reporting. Integration of the wholly-owned subsidiary was completed during the fourth quarter of the year ended June 30, 2011 and is not considered to have materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

As of the end of the Company's 2011 fiscal year, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined the Company's internal control over financial reporting as of June 30, 2011 was effective.

The Company's internal control over financial reporting as of June 30, 2011 has been audited by the Company's independent registered public accounting firm, as stated in their report appearing on the next page.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Jack Henry & Associates, Inc.

Monett, Missouri

We have audited the internal control over financial reporting of Jack Henry & Associates, Inc. and subsidiaries (the Company ) as of June 30, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2011 of the Company and our report dated August 29, 2011 expressed an unqualified opinion on those financial statements.

*/s/ DELOITTE & TOUCHE LLP*

Kansas City, Missouri

August 29, 2011

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**JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands, Except Per Share Data)

|   | <b>YEAR ENDED JUNE 30,</b> |                    |                    |
|---|----------------------------|--------------------|--------------------|
|   | <u><b>2011</b></u>         | <u><b>2010</b></u> | <u><b>2009</b></u> |
| <b>REVENUE</b>                              |                            |                    |                    |
| License                                     | \$ 53,067                  | \$ 52,225          | \$ 58,434          |
| Support and service                         | 852,253                    | 720,504            | 614,242            |
| Hardware                                    | 61,577                     | 63,857             | 72,917             |
| <b>Total revenue</b>                        | <b>966,897</b>             | <b>836,586</b>     | <b>745,593</b>     |
| <b>COST OF SALES</b>                        |                            |                    |                    |
| Cost of license                             | 6,285                      | 5,827              | 6,885              |
| Cost of support and service                 | 515,917                    | 438,476            | 385,837            |
| Cost of hardware                            | 45,361                     | 47,163             | 53,472             |
| <b>Total cost of sales</b>                  | <b>567,563</b>             | <b>491,466</b>     | <b>446,194</b>     |
| <b>GROSS PROFIT</b>                         | <b>399,334</b>             | <b>345,120</b>     | <b>299,399</b>     |
| <b>OPERATING EXPENSES</b>                   |                            |                    |                    |
| Selling and marketing                       | 68,061                     | 60,875             | 54,931             |
| Research and development                    | 63,395                     | 50,820             | 42,901             |
| General and administrative                  | 51,561                     | 51,172             | 43,681             |
| <b>Total operating expenses</b>             | <b>183,017</b>             | <b>162,867</b>     | <b>141,513</b>     |
| <b>OPERATING INCOME</b>                     | <b>216,317</b>             | <b>182,253</b>     | <b>157,886</b>     |
| <b>INTEREST INCOME (EXPENSE)</b>            |                            |                    |                    |
| Interest income                             | 125                        | 161                | 781                |
| Interest expense                            | (8,930)                    | (1,618)            | (1,357)            |
| <b>Total</b>                                | <b>(8,805)</b>             | <b>(1,457)</b>     | <b>(576)</b>       |
| <b>INCOME BEFORE INCOME TAXES</b>           | <b>207,512</b>             | <b>180,796</b>     | <b>157,310</b>     |
| <b>PROVISION FOR INCOME TAXES</b>           | <b>70,041</b>              | <b>62,926</b>      | <b>54,208</b>      |
| <b>NET INCOME</b>                           | <b>\$ 137,471</b>          | <b>\$ 117,870</b>  | <b>\$ 103,102</b>  |
| Diluted net income per share                | \$ 1.59                    | \$ 1.38            | \$ 1.22            |
| Diluted weighted average shares outstanding | 86,687                     | 85,381             | 84,830             |
| Basic net income per share                  | \$ 1.60                    | \$ 1.39            | \$ 1.23            |
| Basic weighted average shares outstanding   | 85,948                     | 84,558             | 84,118             |

See notes to consolidated financial statements.

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**JACK HENRY & ASSOCIATES, INC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share and Per Share Data)

|  | <b>JUNE 30,</b>     |                     |
|--|---------------------|---------------------|
|  | <b><u>2011</u></b>  | <b><u>2010</u></b>  |
| <b>ASSETS</b>  |                     |                     |
| <b>CURRENT ASSETS:</b>                                 |                     |                     |
| Cash and cash equivalents                              | \$ 63,125           | \$ 125,518          |
| Investments, at amortized cost                         | 1,000               | 1,000               |
| Receivables  | 207,510             | 208,450             |
| Income tax receivable                                  | 17,116              | 6,940               |
| Prepaid expenses and other                             | 45,938              | 31,762              |
| Prepaid cost of product                                | 19,261              | 19,432              |
| <b>Total current assets</b>                            | <b>353,950</b>      | <b>393,102</b>      |
| <b>PROPERTY AND EQUIPMENT, net</b>                     | <b>270,186</b>      | <b>274,670</b>      |
| <b>OTHER ASSETS:</b>                                   |                     |                     |
| Non-current prepaid cost of product                    | 19,083              | 11,093              |
| Computer software, net of amortization                 | 110,836             | 115,647             |
| Other non-current assets                               | 28,492              | 25,385              |
| Customer relationships, net of amortization            | 179,133             | 196,328             |
| Trade names, net of amortization                       | 10,597              | 10,815              |
| Goodwill   | 533,520             | 533,520             |
| <b>Total other assets</b>                              | <b>881,661</b>      | <b>892,788</b>      |
| <b>Total assets</b>                                    | <b>\$ 1,505,797</b> | <b>\$ 1,560,560</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                     |                     |
| <b>CURRENT LIABILITIES:</b>                            |                     |                     |
| Accounts payable                                       | \$ 12,829           | \$ 13,500           |
| Accrued expenses                                       | 49,479              | 46,403              |
| Deferred income tax liability                          | 15,274              | 10,449              |
| Accrued income taxes                                   | -                   | 3,851               |
| Notes payable and current maturities of long term debt | 26,092              | 105,963             |
| Deferred revenues                                      | 276,837             | 264,219             |
| <b>Total current liabilities</b>                       | <b>380,511</b>      | <b>444,385</b>      |
| <b>LONG TERM LIABILITIES:</b>                          |                     |                     |
| Non-current deferred revenues                          | 18,267              | 11,398              |
| Non-current deferred income tax liability              | 89,304              | 73,603              |
| Debt, net of current maturities                        | 127,939             | 272,732             |
| Other long-term liabilities                            | 10,000              | 8,070               |



|   |                     |              |
|---|---------------------|--------------|
| <b>Total long term liabilities</b>                                      | <b>245,510</b>      | 365,803      |
| <b>Total liabilities</b>  | <b>626,021</b>      | 810,188      |
| <b>STOCKHOLDERS' EQUITY</b>   |                     |              |
| Preferred stock - \$1 par value; 500,000 shares authorized, none issued | -                   | -            |
| Common stock - \$0.01 par value; 250,000,000 shares authorized;         |                     |              |
| Shares issued at 06/30/11 were 100,766,173                              |                     |              |
| Shares issued at 06/30/10 were 99,808,367                               | <b>1,008</b>        | 998          |
| Additional paid-in capital  | <b>361,131</b>      | 334,817      |
| Retained earnings   | <b>827,222</b>      | 724,142      |
| Less treasury stock at cost   |                     |              |
| 14,406,635 shares at 06/30/11 and at 06/30/10                           | <b>(309,585)</b>    | (309,585)    |
| <b>Total stockholders' equity</b>                                       | <b>879,776</b>      | 750,372      |
| <b>Total liabilities and stockholders' equity</b>                       | <b>\$ 1,505,797</b> | \$ 1,560,560 |

See notes to consolidated financial statements.

**JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(In Thousands, Except Share and Per Share Data)

|  | <b>YEAR ENDED JUNE 30,</b> |                    |                    |
|--|----------------------------|--------------------|--------------------|
|  | <u><b>2011</b></u>         | <u><b>2010</b></u> | <u><b>2009</b></u> |
| <b>PREFERRED SHARES:</b>   | -                          | -                  | -                  |
| <b>COMMON SHARES:</b>  |                            |                    |                    |
| Shares, beginning of year  | <b>99,808,367</b>          | 98,020,796         | 97,702,098         |
| Shares issued for equity-based payment arrangements                              | <b>857,348</b>             | 1,689,457          | 196,727            |
| Shares issued for Employee Stock Purchase Plan                                   | <b>100,458</b>             | 98,114             | 121,971            |
| Shares, end of year  | <b>100,766,173</b>         | 99,808,367         | 98,020,796         |
| <b>COMMON STOCK - PAR VALUE</b>  |                            |                    |                    |
| <b>\$0.01 PER SHARE:</b>   |                            |                    |                    |
| Balance, beginning of year   | <b>\$ 998</b>              | \$ 980             | \$ 977             |
| Shares issued for equity-based payment arrangements                              | <b>9</b>                   | 17                 | 2                  |
| Shares issued for Employee Stock Purchase Plan                                   | <b>1</b>                   | 1                  | 1                  |
| Balance, end of year   | <b>\$ 1,008</b>            | \$ 998             | \$ 980             |
| <b>ADDITIONAL PAID-IN CAPITAL:</b>   |                            |                    |                    |
| Balance, beginning of year   | <b>\$ 334,817</b>          | \$ 298,378         | \$ 291,120         |
| Shares issued upon exercise of stock options                                     | <b>16,837</b>              | 26,569             | 1,882              |
| Shares issued for Employee Stock Purchase Plan                                   | <b>2,456</b>               | 1,953              | 1,888              |
| Tax benefits from share-based compensation                                       | <b>2,298</b>               | 4,666              | 1,216              |
| Stock-based compensation expense   | <b>4,723</b>               | 3,251              | 2,272              |
| Balance, end of year   | <b>\$ 361,131</b>          | \$ 334,817         | \$ 298,378         |
| <b>RETAINED EARNINGS:</b>  |                            |                    |                    |
| Balance, beginning of year   | <b>\$ 724,142</b>          | \$ 636,733         | \$ 560,534         |
| Net income   | <b>137,471</b>             | 117,870            | 103,102            |
| Dividends (2011-\$0.40 per share; 2010-\$0.36 per share; 2009- \$0.32 per share) | <b>(34,391)</b>            | (30,461)           | (26,903)           |
| Balance, end of year   | <b>\$ 827,222</b>          | \$ 724,142         | \$ 636,733         |
| <b>TREASURY STOCK:</b>   |                            |                    |                    |
| Balance, beginning of year   | <b>\$ (309,585)</b>        | \$ (309,585)       | \$ (251,180)       |
| Purchase of treasury shares  | -                          | -                  | (58,405)           |

|                                   |                   |                   |                   |
|-----------------------------------|-------------------|-------------------|-------------------|
| Balance, end of year              | \$ (309,585)      | \$ (309,585)      | \$ (309,585)      |
| <b>TOTAL STOCKHOLDERS' EQUITY</b> | <b>\$ 879,776</b> | <b>\$ 750,372</b> | <b>\$ 626,506</b> |

See notes to consolidated financial statements.

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**JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands)

|  | <b>YEAR ENDED JUNE 30,</b> |                    |                    |
|--|----------------------------|--------------------|--------------------|
|  | <u><b>2011</b></u>         | <u><b>2010</b></u> | <u><b>2009</b></u> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                            |                    |                    |
| Net Income   | \$ 137,471                 | \$ 117,870         | \$ 103,102         |
| Adjustments to reconcile net income from operations to cash from operating activities: |                            |                    |                    |
| Depreciation   | 41,912                     | 36,589             | 38,859             |
| Amortization   | 48,602                     | 34,919             | 25,288             |
| Change in deferred income taxes  | 20,526                     | 16,694             | 7,047              |
| Expense for stock-based compensation   | 4,723                      | 3,251              | 2,272              |
| Loss on disposal of assets   | 1,025                      | 866                | 938                |
| Other, net   | -                          | (2)                | (7)                |
| Changes in operating assets and liabilities:   |                            |                    |                    |
| Change in receivables  | 940                        | (1,539)            | 21,214             |
| Change in prepaid expenses, prepaid cost of product and other                          | (24,543)                   | (6,458)            | 1,969              |
| Change in accounts payable   | (671)                      | 630                | 1,260              |
| Change in accrued expenses   | 1,593                      | 741                | (2,430)            |
| Change in income taxes   | (10,933)                   | 4,362              | (14,867)           |
| Change in deferred revenues  | 19,487                     | 10,775             | 21,943             |
| <b>Net cash from operating activities</b>  | <b>240,132</b>             | <b>218,698</b>     | <b>206,588</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                            |                    |                    |
| Payment for acquisitions, net of cash acquired   | -                          | (426,653)          | (3,027)            |
| Capital expenditures   | (32,085)                   | (54,509)           | (31,562)           |
| Purchase of investments  | (3,999)                    | (3,999)            | (2,996)            |
| Proceeds from sale of assets   | -                          | 1,032              | 42                 |
| Proceeds from investments  | 4,000                      | 4,000              | 3,000              |
| Computer software developed  | (26,954)                   | (25,586)           | (24,684)           |
| <b>Net cash from investing activities</b>  | <b>(59,038)</b>            | <b>(505,715)</b>   | <b>(59,227)</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                            |                    |                    |
| Proceeds from issuance of common stock upon exercise of stock options                  | 19,375                     | 31,204             | 2,720              |

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|  |                    |                   |                   |
|--|--------------------|-------------------|-------------------|
| Minimum tax withholding payments related to option exercises | (2,529)            | (4,635)           | (836)             |
| Proceeds from sale of common stock, net                      | 2,457              | 1,953             | 1,889             |
| Borrowings on credit facilities                              | 399                | 448,647           | 76,692            |
| Repayments on credit facilities                              | (229,854)          | (145,487)         | (90,181)          |
| Debt acquisition costs                                       | -                  | (7,598)           | -                 |
| Excess tax benefits from stock-based compensation            | 1,056              | 661               | 349               |
| Purchase of treasury stock                                   | -                  | -                 | (58,405)          |
| Dividends paid   | (34,391)           | (30,461)          | (26,903)          |
| <b>Net cash from financing activities</b>                    | <b>(243,487)</b>   | <b>294,284</b>    | <b>(94,675)</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>               | <b>\$ (62,393)</b> | <b>\$ 7,267</b>   | <b>\$ 52,686</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>          | <b>\$ 125,518</b>  | <b>\$ 118,251</b> | <b>\$ 65,565</b>  |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                | <b>\$ 63,125</b>   | <b>\$ 125,518</b> | <b>\$ 118,251</b> |

See notes to consolidated financial statements.

**JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(In Thousands, Except Per Share Amounts)

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**DESCRIPTION OF THE COMPANY**

Jack Henry & Associates, Inc. and Subsidiaries ( JHA or the Company ) is a provider of integrated computer systems and services that has developed and acquired a number of banking and credit union software systems. The Company's revenues are predominately earned by marketing those systems to financial institutions nationwide together with computer equipment (hardware) and by providing the conversion and software implementation services for financial institutions to utilize JHA software systems, and by providing other related services. JHA also provides continuing support and services to customers using in-house or outsourced systems.

**CONSOLIDATION**

The consolidated financial statements include the accounts of JHA and all of its subsidiaries, which are wholly-owned, and all intercompany accounts and transactions have been eliminated.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**REVENUE RECOGNITION**

The Company derives revenue from the following sources: license fees, support and service fees and hardware sales. There are no rights of return, condition of acceptance or price protection in the Company's sales contracts.

*License Fee Revenue:* For software license agreements that do not require significant modification or customization of the software, the Company recognizes software license revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred, the license fee is fixed and determinable and collection is probable. The Company's software license agreements generally include multiple products and services or elements. None of these elements are deemed to be essential to the functionality of the other elements. Accounting principles generally accepted in the United States of America ( U.S. GAAP ) generally require revenue earned on software arrangements involving multiple elements to be allocated to each element based on vendor-specific objective evidence ( VSOE ) of fair value. Fair value is determined for license fees based upon the price charged when sold separately or, if the product is not yet sold separately, the price determined by management with relevant authority. In the event that we determine that VSOE does not exist for one or more of the delivered elements of a software arrangement, but does

exist for all of the undelivered elements, revenue is recognized using the residual method. Under the residual method, a residual amount of the total arrangement fee is recognized as revenue for the delivered elements after the established fair value of all undelivered elements has been deducted.

Arrangements with customers that include significant customization, modification, or production of software are accounted for under contract accounting, with the revenue being recognized using the percentage-of-completion method.

*Support and Service Fee Revenue:* Implementation services are generally for installation, training, implementation, and configuration. These services are not considered essential to the functionality of the related software. VSOE of fair value is established by pricing used when these services are sold separately or, if the services are not yet sold separately, the price determined by management with relevant authority. Generally revenue is recognized when services are completed. On certain larger implementations, revenue is recognized based on milestones during the implementation. Milestones are triggered by tasks completed or based on direct labor hours.

Maintenance support revenue is recognized pro-rata over the contract period, typically one year. VSOE of fair value is determined based on contract renewal rates.

Outsourced data processing and ATM, debit card, and other transaction processing services revenue is recognized in the month the transactions are processed or the services are rendered.

*Hardware Revenue:* Hardware revenue is recognized upon delivery to the customer, when title and risk of loss are transferred. In most cases, we do not stock in inventory the hardware products we sell, but arrange for third-party suppliers to drop-ship the products to our customers on our behalf. To the extent hardware revenue is part of such an arrangement and is not deemed essential to the functionality of any of the other elements to the arrangement, it is recognized based on VSOE of fair value at the time of delivery. The Company also remarkets maintenance contracts on hardware to our customers. Hardware maintenance revenue is recognized ratably over the agreement period.

#### PREPAID COST OF PRODUCT

Costs for remarketed hardware and software maintenance contracts, which are prepaid, are recognized ratably over the life of the contract, generally one to five years, with the related revenue amortized from deferred revenues.

#### DEFERRED REVENUES

Deferred revenues consist primarily of prepaid annual software support fees and prepaid hardware maintenance fees. Hardware maintenance contracts are multi-year; therefore, the deferred revenue and maintenance are classified in accordance with the terms of the contract. Software and hardware deposits received are also reflected as deferred revenues.

#### COMPUTER SOFTWARE DEVELOPMENT

The Company capitalizes new product development costs incurred from the point at which technological feasibility has been established through the point at which the product is ready for general availability. Software development costs that are capitalized are evaluated on a product-by-product basis annually and are assigned an estimated economic life based on the type of product, market characteristics, and maturity of the market for that particular product. The Company's amortization policy for these capitalized costs is to amortize the costs in accordance with U.S. GAAP. Generally, these costs are amortized based on current and estimated future revenue from the product or on a straight-line basis, whichever yields greater amortization expense.

#### CASH EQUIVALENTS

The Company considers all highly liquid investments with maturities of three months or less at the time of acquisition to be cash equivalents.

## INVESTMENTS

The Company invests its cash that is not required for current operations primarily in U.S. government securities and money market accounts. The Company has the positive intent and ability to hold its debt securities until maturity and accordingly, these securities are classified as held-to-maturity and are carried at historical cost adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the level-yield method over the period to maturity. The held-to-maturity securities typically mature in less than one year. Interest on investments in debt securities is included in income when earned.

The amortized cost of held-to-maturity securities is \$1,000 at both June 30, 2011 and 2010. Fair values of these securities did not differ significantly from amortized cost due to the nature of the securities and minor interest rate fluctuations during the periods.

## PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment is stated at cost and depreciated principally using the straight-line method over the estimated useful lives of the assets.

Intangible assets consist of goodwill, customer relationships, computer software, and trade names acquired in business acquisitions in addition to internally developed computer software. The amounts are amortized, with the exception of those with an indefinite life (such as goodwill), over an estimated economic benefit period, generally five to twenty years, using the straight-line method.

The Company reviews its long-lived assets and identifiable intangible assets with finite lives for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. The Company evaluates goodwill and other indefinite-lived intangible assets for impairment of value on an annual basis as of January 1 and between annual tests if events or changes in circumstances indicate that the asset might be impaired.

## COMPREHENSIVE INCOME

Comprehensive income for each of the years ended June 30, 2011, 2010, and 2009 equals the Company's net income.

## BUSINESS SEGMENT INFORMATION

In accordance with U.S. GAAP, the Company's operations are classified as two business segments: bank systems and services and credit union systems and services (see Note 13). Revenue by type of product and service is presented on the face of the consolidated statements of income. Substantially all the Company's revenues are derived from operations and assets located within the United States of America.

## COMMON STOCK

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or short-term borrowings on its existing credit facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2011, there were 14,407 shares in treasury stock and the Company had the remaining authority to repurchase up to 5,584 additional shares. The total cost of treasury shares at June 30, 2011 is \$309,585. There were no repurchases of treasury stock in fiscal 2011 or 2010.



## INCOME PER SHARE

Per share information is based on the weighted average number of common shares outstanding during the year. Stock options have been included in the calculation of income per diluted share to the extent they are dilutive. The difference between basic and diluted weighted average shares outstanding is the dilutive effect of outstanding stock options (see Note 10).

## INCOME TAXES

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance would be established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense are recognized on the full amount of deferred benefits for uncertain tax positions. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense.

## RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update ( ASU ) No. 2009-13, Multiple-Deliverable Revenue Arrangements, which is effective for arrangements beginning or changed during fiscal years starting after June 15, 2010. This new standard eliminates the use of the residual method of revenue recognition and requires the allocation of consideration to each deliverable using the relative selling price method. This new guidance did not have a material impact on revenue recognition because nearly all of the Company's revenue arrangements are subject to Accounting Standards Codification ( ASC ) Topic 985. Such arrangements are considered out of scope for this ASU.

In October 2009, the FASB also issued ASU No. 2009-14, Software: Certain Revenue Arrangements that Include Software Elements, which is also effective for arrangements beginning or changed during fiscal years starting after June 15, 2010. This revision to Software (Topic 985) drops from its scope all tangible products containing both software and non-software components that operate together to deliver the product's functions. The majority of the Company's software arrangements are not tangible products with software components; therefore, this update did not materially impact the company.

The FASB issued ASU No. 2011-04, Fair Value Measurement in May 2011, which is effective for the Company beginning July 1, 2012 and is to be applied prospectively. The updated explanatory guidance on measuring fair value will be adopted by the Company at that time and is not expected to have a significant impact on our fair value calculations. No additional fair value measurements are required as a result of the update.

The FASB also issued ASU No. 2011-05, Comprehensive Income in June 2011, which is effective for the Company beginning January 1, 2012 and will be applied retrospectively. The updated guidance requires non-owner changes in stockholders' equity to be reported either in a single continuous statement of comprehensive income or in two separate but consecutive statements, rather than as part of the statement of changes in stockholders' equity. No changes in disclosure will be required as a result of the update.

## NOTE 2: FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values for held-to-maturity securities are based on quoted market prices. For cash equivalents, amounts receivable or payable and short-term borrowings, fair values approximate carrying value, based on the short-term nature of the assets. The fair value of long term debt also approximates carrying value as estimated using discounting cash flows based on the Company's current incremental borrowing rates or quoted prices in active markets.

### NOTE 3: PROPERTY AND EQUIPMENT

The classification of property and equipment, together with their estimated useful lives is as follows:

|                               | 2011       | June 30, | 2010       | Estimated Useful Life     |
|-------------------------------|------------|----------|------------|---------------------------|
| Land                          | \$ 25,011  |          | \$ 24,911  |                           |
| Land improvements             | 25,882     |          | 19,838     | 5-20 years                |
| Buildings                     | 137,580    |          | 103,744    | 20-30 years               |
| Leasehold improvements        | 24,440     |          | 21,012     | 5-20 years <sup>(1)</sup> |
| Equipment and furniture       | 230,346    |          | 211,698    | 5-8 years                 |
| Aircraft and equipment        | 41,605     |          | 40,192     | 6-12 years                |
| Construction in progress      | 8,972      |          | 53,596     |                           |
|                               | 493,836    |          | 474,991    |                           |
| Less accumulated depreciation | 223,650    |          | 200,321    |                           |
| Property and equipment, net   | \$ 270,186 |          | \$ 274,670 |                           |

<sup>(1)</sup> Lesser of lease term or estimated useful life

The Company had material commitments to purchase property and equipment related to the construction of new facilities, totaling \$1,622 and \$4,153 at June 30, 2011 and 2010, respectively. Property and equipment included \$332 and \$723 that was in accrued liabilities at June 30, 2011 and 2010, respectively. Also, the Company acquired \$6,020 and \$8,896 of computer equipment through capital leases for the years ended June 30, 2011 and 2010, respectively. These amounts were excluded from capital expenditures on the statement of cash flows.

### NOTE 4: OTHER ASSETS

#### *Goodwill*

Changes in the carrying amount of goodwill for the years ended June 30, 2011 and 2010, by reportable segments, are:

|                             | Banking<br>Systems<br>and Services | Credit Union<br>Systems and<br>Services | Total      |
|-----------------------------|------------------------------------|---|------------|
| Balance, as of July 1, 2009 | \$ 267,602                         | \$ 24,798                               | \$ 292,400 |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Goodwill acquired during the year        | 136,347           | 104,773           | 241,120           |
| Balance, as of June 30, 2010             | 403,949           | 129,571           | 533,520           |
| <b>Goodwill acquired during the year</b> | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Balance, as of June 30, 2011</b>      | <b>\$ 403,949</b> | <b>\$ 129,571</b> | <b>\$ 533,520</b> |

The banking systems and services segment additions for fiscal 2010 relate primarily to the acquisitions of iPay and GFSI. The credit union systems and services segment additions for fiscal 2010 relate to the acquisitions of iPay and PTSI. See Note 12 for further details.

*Trade names & Customer relationships*

Information regarding other identifiable intangible assets is as follows:

|                        | 2011               |                             | June 30,   |                    | 2010                        |            |
|------------------------|--------------------|-----------------------------|------------|--------------------|-----------------------------|------------|
|                        | Carrying<br>Amount | Accumulated<br>Amortization | Net        | Carrying<br>Amount | Accumulated<br>Amortization | Net        |
| Customer relationships | \$ 278,617         | \$ (99,484)                 | \$ 179,133 | \$ 279,273         | \$ (82,945)                 | \$ 196,328 |
| Trade names            | 11,064             | (467)                       | 10,597     | 11,064             | (249)                       | 10,815     |
| Totals                 | \$ 289,681         | \$ (99,951)                 | \$ 189,730 | \$ 290,337         | \$ (83,194)                 | \$ 207,143 |

Most of our trade name assets have been determined to have indefinite lives and are not amortized. Customer relationships have lives ranging from five to 20 years.

*Computer software*

Computer software includes the unamortized cost of software products developed or acquired by the Company, which are capitalized and amortized over useful lives ranging from five to ten years.

Following is an analysis of the computer software capitalized:

|                                     | Carrying<br>Amount | Accumulated<br>Amortization | Total         |
|-------------------------------------|--------------------|-----------------------------|---------------|
| Balance, July 1, 2009               | \$ 129,271         | \$ (46,592)                 | \$ 82,679     |
| Acquired software                   | 30,801             | (4,870)                     | 25,931        |
| Capitalized development cost        | 25,586             | -                           | 25,586        |
| Disposals                           | (783)              | 16                          | (767)         |
| Amortization expense                | -                  | (17,782)                    | (17,782)      |
| Balance, June 30, 2010              | 184,875            | (69,228)                    | 115,647       |
| <b>Capitalized development cost</b> | <b>26,954</b>      | <b>-</b>                    | <b>26,954</b> |

|                               |                   |                    |                   |
|-------------------------------|-------------------|--------------------|-------------------|
| <b>Disposals</b>              | <b>(2,371)</b>    | <b>1,795</b>       | <b>(576)</b>      |
| <b>Amortization expense</b>   | <b>-</b>          | <b>(31,189)</b>    | <b>(31,189)</b>   |
| <b>Balance, June 30, 2011</b> | <b>\$ 209,458</b> | <b>\$ (98,622)</b> | <b>\$ 110,836</b> |

Amortization expense for all intangible assets was \$48,602, \$34,919, and \$25,288 for the fiscal years ended June 30, 2011, 2010, and 2009, respectively. The estimated aggregate future amortization expense for each of the next five years for all intangible assets remaining as of June 30, 2011, is as follows:

| Year | Software | Customer Relationships | Total  |
|------|----------|------------------------|--------|
| 2012 | 29,543   | 16,169                 | 45,712 |
| 2013 | 23,541   | 14,805                 | 38,346 |
| 2014 | 19,629   | 14,805                 | 34,434 |
| 2015 | 13,575   | 14,050                 | 27,625 |
| 2016 | 6,263    | 13,427                 | 19,690 |

#### NOTE 5: DEBT

The Company's outstanding long and short term debt is as follows:

|  | June 30,          |            |
|--|-------------------|------------|
|  | 2011              | 2010       |
| <b>LONG TERM DEBT</b>                                  |                   |            |
| Long term revolving credit facility                    | \$ -              | \$ 120,000 |
| Term loan  | <b>150,000</b>    | 150,000    |
| Capital leases   | -                 | 5,689      |
| Other borrowings                                       | <b>1,015</b>      | 2,244      |
|  | <b>151,015</b>    | 277,933    |
| Less current maturities                                | <b>23,076</b>     | 5,201      |
| Long-term debt, net of current maturities              | <b>\$ 127,939</b> | \$ 272,732 |
| <b>SHORT TERM DEBT</b>                                 |                   |            |
| Bullet term loan                                       | -                 | 100,000    |
| Capital Leases   | <b>3,016</b>      | -          |
| Current maturities of long-term debt                   | <b>23,076</b>     | 5,201      |
| Other borrowings                                       | -                 | 762        |
| Notes payable and current maturities of long term debt | <b>\$ 26,092</b>  | \$ 105,963 |

The following table summarizes the annual principal payments required as of June 30, 2011:

Years ended June 30,

|            |            |
|------------|------------|
| 2012       | 26,092     |
| 2013       | 22,879     |
| 2014       | 22,552     |
| 2015       | 22,508     |
| 2016       | 60,000     |
| Thereafter | -          |
|            | \$ 154,031 |

The Company has a bank credit facility agreement that includes a revolving loan, a term loan and a bullet term loan.

*Revolving credit facilities*

The long term revolving loan allows for borrowings of up to \$150,000, which may be increased by the Company at any time until maturity to \$250,000. The revolving loan terminates June 4, 2015. At June 30, 2011, no amount was outstanding.

*Term loan*

The term loan has an original principal balance of \$150,000, with quarterly principal payments of \$5,625 beginning on September 30, 2011, and the remaining balance due June 4, 2015. At June 30, 2011, the outstanding balance was bearing interest at a rate of 2.25%. Of the \$150,000 outstanding, \$22,500 will be maturing within the next twelve months.

*Bullet term loan*

The bullet term loan had an original principal balance of \$100,000. The full balance, which would have been due on December 4, 2010, was paid in full on July 8, 2010.

Each of the above loans bear interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate or (c) LIBOR plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The loans are secured by pledges of capital stock of certain subsidiaries of the Company. The loans are also guaranteed by certain subsidiaries of the Company. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of June 30, 2011, the Company was in compliance with all such covenants.

*Capital leases*

The Company has entered into various capital lease obligations for the use of certain computer equipment. At June 30, 2011, \$3,016 was outstanding, all of which will be maturing in the next twelve months. Included in property and equipment are assets under capital leases totaling \$5,540, which have accumulated depreciation totaling \$365.

*Other lines of credit*

The Company has an unsecured bank credit line which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (2.25% at June 30, 2011). The credit line was renewed through April 29, 2012. At June 30, 2011, no amount was outstanding.

The Company renewed a bank credit line on March 7, 2011 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25% at June 30, 2011). The credit line expires March 7, 2012 and is secured by \$1,000 of investments. At June 30, 2011, no amount was outstanding.

*Interest*

The Company paid interest of \$8,000, \$759, and \$1,606 in 2011, 2010, and 2009 respectively. During fiscal 2011, the Company incurred a total of \$8,930 of interest expense.

NOTE 6: LEASE COMMITMENTS

The Company leases certain property under operating leases which expire over the next 7 years, but certain of the leases contain options to extend the lease term. All lease payments are based on the lapse of time but include, in some cases, payments for operating expenses and property taxes. There are no purchase options on real estate leases at this time, but most real estate leases have one or more renewal options. Certain leases on real estate are subject to annual escalations for increases in operating expenses and property taxes.

As of June 30, 2011, net future minimum lease payments are as follows:

| Years Ending June 30, | Lease Payments |
|-----------------------|----------------|
| 2012                  | \$ 7,185       |
| 2013                  | 5,672          |
| 2014                  | 4,839          |
| 2015                  | 3,966          |
| 2016                  | 3,038          |
| Thereafter            | 1,487          |
| Total                 | \$ 26,187      |

Rent expense was \$8,985, \$9,733, and \$8,314 in 2011, 2010, and 2009, respectively.

NOTE 7: INCOME TAXES

The provision for income taxes from continuing operations consists of the following:

|          | Year ended June 30, |             |             |
|----------|---------------------|-------------|-------------|
|          | <u>2011</u>         | <u>2010</u> | <u>2009</u> |
| Current: |                     |             |             |
| Federal  | \$ 43,334           | \$ 39,994   | \$ 39,616   |
| State    | 6,180               | 6,238       | 7,527       |

Deferred:

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|         |                  |           |           |
|---------|------------------|-----------|-----------|
| Federal | <b>18,276</b>    | 14,327    | 7,345     |
| State   | <b>2,251</b>     | 2,367     | (280)     |
|         | <b>\$ 70,041</b> | \$ 62,926 | \$ 54,208 |

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

|  | June 30,            |             |
|--|---------------------|-------------|
|  | <u>2011</u>         | <u>2010</u> |
| Deferred tax assets:   |                     |             |
| Deferred revenue   | \$ 5,372            | \$ 3,875    |
| Expense reserves (bad debts, insurance,<br>franchise tax and vacation) | 8,086               | 6,730       |
| Net operating loss carryforwards                                       | 11,097              | 12,222      |
| Other, net   | 1,122               | 514         |
|  | <b>25,677</b>       | 23,341      |
| Deferred tax liabilities:  |                     |             |
| Accelerated tax depreciation   | (29,971)            | (17,425)    |
| Accelerated tax amortization   | (81,265)            | (73,355)    |
| Other, net   | (18,713)            | (16,307)    |
|  | <b>(129,949)</b>    | (107,087)   |
| Net deferred tax liability before valuation allowance                  | <b>(104,272)</b>    | (83,746)    |
| Valuation allowance  | <b>(306)</b>        | (306)       |
| Net deferred tax liability   | <b>\$ (104,578)</b> | \$ (84,052) |

The deferred taxes are classified on the balance sheets as follows:

|                                   | <u>2011</u>         | <u>2010</u> |
|-----------------------------------|---------------------|-------------|
| Deferred income taxes (current)   | \$ (15,274)         | \$ (10,449) |
| Deferred income taxes (long-term) | (89,304)            | (73,603)    |
|                                   | <b>\$ (104,578)</b> | \$ (84,052) |

The following analysis reconciles the statutory federal income tax rate to the effective income tax rates reflected above:

|  | Year Ended June 30, |             |             |
|--|---------------------|-------------|-------------|
|  | <u>2011</u>         | <u>2010</u> | <u>2009</u> |

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|   |       |       |       |
|---|-------|-------|-------|
| Computed "expected" tax expense               | 35.0% | 35.0% | 35.0% |
| Increase (reduction) in taxes resulting from: |       |       |       |
| State income taxes,                           |       |       |       |
| net of federal income tax benefits            | 2.6%  | 2.5%  | 2.7%  |
| Research and development credit               | -2.0% | -0.7% | -3.0% |
| Permanent book/tax differences                | -2.0% | -0.9% | -0.4% |
| Section 199 - prior year benefits             | -0.2% | -1.8% | 0.0%  |
| Deferred tax adjustments                      | 0.5%  | 0.7%  | 0.0%  |
| Valuation Allowance                           | 0.0%  | 0.0%  | 0.2%  |
| Other (net)                                   | -0.1% | 0.0%  | 0.0%  |
|   | 33.8% | 34.8% | 34.5% |

An adjustment was made during fiscal 2011 to reflect a \$3,802 reduction to the net deferred tax liability assumed upon the acquisition of iPay in fiscal 2010. Further details are provided in Note 12.

As of June 30, 2011, we have \$24,876 of net operating loss ( NOL ) carryforwards pertaining to the acquisition of GFSI, which are expected to be utilized after the application of IRC Section 382. Separately, as of June 30, 2011, we had state NOL carryforwards of \$2,379. These losses have varying expiration dates, ranging from 2012 to 2029. Based on state tax rules which restrict our usage of these losses, we believe it is more likely than not that \$306 of these losses will expire unutilized. Accordingly, a valuation allowance of \$306 has been recorded against these assets as of June 30, 2011 and 2010.

The Company paid income taxes of \$60,515, \$42,116, and \$62,965 in 2011, 2010, and 2009, respectively.

At June 30, 2010, the Company had \$7,187 of unrecognized tax benefits. At June 30, 2011, the Company had \$8,897 of unrecognized tax benefits, of which, \$6,655, if recognized, would affect our effective tax rate. We had accrued interest and penalties of \$1,030 and \$890 related to uncertain tax positions at June 30, 2011 and 2010, respectively.

A reconciliation of the unrecognized tax benefits for the years ended June 30, 2011 and 2010 follows:

|  | Unrecognized<br>Tax Benefits |
|--|------------------------------|
| Balance at July 1, 2009  | \$ 5,518                     |
| Additions for current year tax positions                           | 691                          |
| Reductions for current year tax positions                          | (39)                         |
| Additions for prior year tax positions                             | 2,049                        |
| Reductions for prior year tax positions                            | (298)                        |
| Settlements  | -                            |
| Reductions related to expirations of statute of limitations        | (734)                        |
| Balance at June 30, 2010   | 7,187                        |
| <b>Additions for current year tax positions</b>                    | <b>1,338</b>                 |
| <b>Reductions for current year tax positions</b>                   | <b>-</b>                     |
| <b>Additions for prior year tax positions</b>                      | <b>599</b>                   |
| <b>Reductions for prior year tax positions</b>                     | <b>-</b>                     |
| <b>Settlements</b>   | <b>-</b>                     |
| <b>Reductions related to expirations of statute of limitations</b> | <b>(227)</b>                 |



**Balance at June 30, 2011** **\$ 8,897**

During the fiscal year ended June 30, 2010, the Internal Revenue Service commenced an examination of the Company's U.S. federal income tax returns for fiscal years ended June 2008 through 2009 that is anticipated to be completed by the end of calendar year 2011. At this time, it is anticipated that the examination will not result in a material change to the Company's financial position. The U.S. federal and state income tax returns for June 30, 2008 and all subsequent years still remain subject to examination as of June 30, 2011 under statute of limitations rules. We anticipate potential changes resulting from our IRS examination and expiration of statutes of limitations could reduce the unrecognized tax benefits balance by \$3,000 - \$4,000 within twelve months of June 30, 2011.

#### NOTE 8: INDUSTRY AND SUPPLIER CONCENTRATIONS

The Company sells its products to banks, credit unions, and financial institutions throughout the United States and generally does not require collateral. All billings to customers are due 30 days from date of billing. Reserves (which are insignificant at June 30, 2011, 2010 and 2009) are maintained for potential credit losses.

In addition, the Company purchases most of its computer hardware and related maintenance for resale in relation to installation of JHA software systems from two suppliers. There are a limited number of hardware suppliers for these required items. If these relationships were terminated, it could have a significant negative impact on the future operations of the Company.

#### NOTE 9: STOCK BASED COMPENSATION PLANS

Our pre-tax operating income for the years ended June 30, 2011, 2010 and 2009 includes \$4,723, \$3,251 and \$2,272 of stock-based compensation costs, respectively. Total compensation cost for the years ended June 30, 2011, 2010 and 2009 includes \$4,209, \$2,347, and \$1,620 relating to the restricted stock plan, respectively.

##### *1996 SOP and 2005 NSOP*

The Company previously issued options to employees under the 1996 Stock Option Plan ( 1996 SOP ) and currently issues options to outside directors under the 2005 Non-Qualified Stock Option Plan ( 2005 NSOP ).

The 1996 SOP was adopted by the Company on October 29, 1996, for its employees. Terms and vesting periods of the options were determined by the Compensation Committee of the Board of Directors when granted and for options outstanding include vesting periods up to four years. Shares of common stock were reserved for issuance under this plan at the time of each grant, which must be at or above fair market value of the stock at the grant date. The options terminate 30 days after termination of employment, three months after retirement, one year after death or 10 years after the date of grant. In October 2002, the stockholders approved an increase in the number of stock options available from 13.0 million to 18.0 million shares. The plan terminated by its terms on October 29, 2006, although options previously granted under the 1996 SOP are still outstanding and vested.

The 2005 NSOP was adopted by the Company on September 23, 2005, for its outside directors. Generally, options are exercisable beginning six months after grant at an exercise price equal to 100% of the fair market value of the stock at the grant date. For individuals who have served less than four continuous years, 25% of all options will vest after one year of service, 50% shall vest after two years, and 75% shall vest after three years of service on the Board. The options terminate upon surrender of the option, upon the expiration of one year following notification of a deceased

optionee, or 10 years after grant. 700 shares of common stock have been reserved for issuance under this plan with a maximum of 100 for each director. As of June 30, 2011, there were 480 shares available for future grants under the plan.

A summary of option plan activity under the plans is as follows:

|  | Number of<br>Shares | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic Value |
|--|---------------------|---------------------------------------|------------------------------|
| Outstanding July 1, 2008                         | 3,977               | \$ 17.42                              |                              |
| Granted  | 50                  | 17.45                                 |                              |
| Forfeited  | (19)                | 20.77                                 |                              |
| Exercised  | (248)               | 12.28                                 |                              |
| Outstanding June 30, 2009                        | 3,760               | 17.75                                 |                              |
| Granted  | 50                  | 23.65                                 |                              |
| Forfeited  | (71)                | 26.64                                 |                              |
| Exercised  | (1,842)             | 16.70                                 |                              |
| Outstanding June 30, 2010                        | 1,897               | 18.58                                 |                              |
| <b>Granted</b>                                   | <b>-</b>            | <b>-</b>                              |                              |
| <b>Forfeited</b>                                 | <b>(47)</b>         | <b>27.84</b>                          |                              |
| <b>Exercised</b>                                 | <b>(860)</b>        | <b>21.46</b>                          |                              |
| <b>Outstanding June 30, 2011</b>                 | <b>990</b>          | <b>\$ 15.65</b>                       | <b>\$ 14,216</b>             |
| <b>Vested and Expected to Vest June 30, 2011</b> | <b>990</b>          | <b>\$ 15.65</b>                       | <b>\$ 14,216</b>             |
| <b>Exercisable June 30, 2011</b>                 | <b>990</b>          | <b>\$ 15.65</b>                       | <b>\$ 14,216</b>             |

There were no options granted during fiscal 2011. The weighted-average fair value of options granted during fiscal 2010 and fiscal 2009 was \$8.90 and \$7.87, respectively. The only options granted during fiscal years 2010 and 2009 were to non-employee members of the Company's board of directors.

The assumptions used in estimating fair value and resulting compensation expenses at the grant dates are as follows:

|                               | Year Ended June 30, |       |
|-------------------------------|---------------------|-------|
|                               | 2010                | 2009  |
| Weighted Average Assumptions: |                     |       |
| Expected life (years)         | 6.67                | 3.72  |
| Volatility                    | 33%                 | 30%   |
| Risk free interest rate       | 3.0%                | 1.4%  |
| Dividend yield                | 1.52%               | 1.72% |

The option pricing model assumptions such as expected life, volatility, risk-free interest rate, and dividend yield impact the fair value estimate. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions were based on or determined from external data (for example, the risk-free interest rate) and other assumptions were derived from our historical experience with

share-based payment arrangements (e.g., volatility, expected life and dividend yield). The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.

As of June 30, 2011, there was no unrecognized compensation costs related to stock options since all options have now vested. The weighted average remaining contractual term on options currently exercisable as of June 30, 2011 was 2.75 years.

Following is an analysis of stock options outstanding and exercisable as of June 30, 2011:

| Range of Exercise Prices | Shares      |             | Weighted-Average Remaining Contractual Life in Years | Weighted-Average Exercise Price |             |
|--------------------------|-------------|-------------|--|---------------------------------|-------------|
|                          | Outstanding | Exercisable | Outstanding  | Outstanding                     | Exercisable |
| \$10.84 - \$11.50        | 531         | 531         | 1.78   | \$ 10.84                        | \$ 10.84    |
| \$11.51 - \$18.55        | 122         | 122         | 4.56   | 17.43                           | 17.43       |
| \$18.56 - \$21.53        | 143         | 143         | 2.01   | 20.05                           | 20.05       |
| \$21.54 - \$23.40        | 85          | 85          | 2.37   | 22.37                           | 22.37       |
| \$23.41 - \$23.65        | 50          | 50          | 8.37   | 23.65                           | 23.65       |
| \$23.66 - \$24.97        | 1           | 1           | 0.38   | 24.97                           | 24.97       |
| \$24.98 - \$25.00        | 2           | 2           | 0.41   | 25.00                           | 25.00       |
| \$25.01 - \$25.65        | 5           | 5           | 0.35   | 25.65                           | 25.65       |
| \$25.66 - \$25.72        | 1           | 1           | 0.15   | 25.72                           | 25.72       |
| \$25.73 - \$28.52        | 50          | 50          | 6.34   | 28.52                           | 28.52       |
| \$ 10.84 - \$28.52       | 990         | 990         | 2.75   | \$ 15.65                        | \$ 15.65    |

The income tax benefits from stock option exercises totaled \$2,298, \$4,666 and \$1,233 for the years ended June 30, 2011, 2010 and 2009, respectively.

The total intrinsic value of options exercised was \$6,342, \$12,694 and \$1,999 for the fiscal years ended June 30, 2011, 2010 and 2009, respectively.

#### *Restricted Stock Plan*

The Restricted Stock Plan was adopted by the Company on November 1, 2005, for its employees. Up to 3,000 shares of common stock are available for issuance under the plan. Upon issuance, shares of restricted stock are subject to forfeiture and to restrictions which limit the sale or transfer of the shares during the restriction period. The restrictions will be lifted over periods ranging from three to seven years from grant date. On certain awards, the restrictions may be lifted sooner if certain targets for shareholder return are met.

The following table summarizes non-vested share awards as of June 30, 2011, as well as activity for the year then ended:

Shares

|   |             | Weighted<br>Average Grant<br>Date Fair<br>Value |
|---|-------------|---|
| Non-vested shares at July 1, 2009         | 267         | \$ 21.66  |
| Granted                                   | 139         | 22.59   |
| Vested                                    | (19)        | 22.36   |
| Forfeited                                 | -           | -   |
| Non-vested shares at June 30, 2010        | 387         | 21.96   |
| <b>Granted</b>                            | <b>102</b>  | <b>24.54</b>                                    |
| <b>Vested</b>                             | <b>(59)</b> | <b>23.75</b>                                    |
| <b>Forfeited</b>                          | <b>(14)</b> | <b>21.88</b>                                    |
| <b>Non-vested shares at June 30, 2011</b> | <b>416</b>  | <b>\$ 22.34</b>                                 |

The non-vested share awards will not participate in dividends during the restriction period. As a result, the weighted-average fair value of the non-vested share awards is based on the fair market value of the Company's equity shares on the grant date, less the present value of the expected future dividends to be declared during the restriction period.

At June 30, 2011, there was \$3,860 of compensation expense that has yet to be recognized related to non-vested restricted stock share awards, which will be recognized over a weighted-average period of 1.49 years.

An amendment to the Restricted Stock Plan was adopted by the Company on August 20, 2010, for its executive officers. Unit awards will be made to employees remaining in continuous employment throughout the performance period and vary based on the Company's percentile ranking in Total Shareholder Return (TSR) over the performance period compared to a peer group of companies. TSR is defined as the change in the stock price through the performance period plus dividends per share paid during the performance period, all divided by the stock price at the beginning of the performance period. It is the intention of the Company to settle the unit awards in shares of the Company's stock.

The following table summarizes non-vested unit awards as of June 30, 2011, as well as activity for the year then ended:

|   | Units      | Weighted<br>Average Grant<br>Date Fair<br>Value |
|---|------------|---|
| Non-vested shares at July 1, 2010         | -          | -   |
| <b>Granted</b>                            | <b>293</b> | <b>15.77</b>                                    |
| <b>Vested</b>                             | <b>-</b>   | <b>-</b>  |
| <b>Forfeited</b>                          | <b>-</b>   | <b>-</b>  |
| <b>Non-vested shares at June 30, 2011</b> | <b>293</b> | <b>\$ 15.77</b>                                 |

The assumptions used in this model to estimate fair value and resulting values are as follows:

Weighted Average Assumptions at measurement date:

|                         |       |
|-------------------------|-------|
| Volatility              | 37%   |
| Risk free interest rate | 0.9%  |
| Dividend yield          | 1.60% |
| Stock Beta              | 0.89  |

At June 30, 2011, there was \$3,389 of compensation expense that has yet to be recognized related to non-vested restricted stock unit awards, which will be recognized over a weighted-average period of 2.20 years.

#### NOTE 10: EARNINGS PER SHARE

The following table reflects the reconciliation between basic and diluted net income per share:

|   | Year Ended June 30, |           |           |
|---|---------------------|-----------|-----------|
|   | 2011                | 2010      | 2009      |
| Net Income  | <b>\$137,471</b>    | \$117,870 | \$103,102 |
| Common share information:                             |                     |           |           |
| Weighted average shares outstanding for basic EPS     | <b>85,948</b>       | 84,558    | 84,118    |
| Dilutive effect of stock options and restricted stock | <b>739</b>          | 823       | 712       |
| Shares for diluted EPS                                | <b>86,687</b>       | 85,381    | 84,830    |
| Basic Earnings per Share                              | <b>\$ 1.60</b>      | \$ 1.39   | \$ 1.23   |
| Diluted Earnings per Share                            | <b>\$ 1.59</b>      | \$ 1.38   | \$ 1.22   |

Per share information is based on the weighted average number of common shares outstanding for each of the fiscal years. Stock options and restricted stock have been included in the calculation of income per share to the extent they are dilutive. Stock options and restricted stock to purchase approximately 12 shares for fiscal 2011, 602 shares for fiscal 2010, and 1,267 shares for fiscal 2009, were not dilutive and therefore, were not included in the computations of diluted income per common share amounts.

#### NOTE 11: EMPLOYEE BENEFIT PLANS

The Company established an employee stock purchase plan in 2006. The plan allows the majority of employees the opportunity to directly purchase shares of the Company at a 15% discount. The plan does not meet the criteria as a non-compensatory plan. As a result, the Company records the total dollar value of the stock discount given to employees under the plan as expense. Total expense recorded by the Company under the plan for the year ended June

30, 2011, 2010 and 2009 was \$434, \$345 and \$333 respectively.

The Company has a defined contribution plan for its employees, the 401(k) Retirement Savings Plan (the Plan). The Plan is subject to the Employee Retirement Income Security Act of 1975 (ERISA) as amended. Under the Plan, the Company matches 100% of full time employee contributions up to 5% of compensation subject to a maximum of \$5 per year. In order to receive matching contributions, employees must be 18 years of age and be employed for at least six months. The Company has the option of making a discretionary contribution; however, none has been made for any of the three most recent fiscal years. The total matching contributions for the Plan were \$11,076, \$9,369, and \$8,341 for fiscal 2011, 2010, and 2009, respectively.

## NOTE 12: BUSINESS ACQUISITIONS

Fiscal 2010 Acquisitions:

### *iPay Technologies Holding Company, LLC*

On June 4, 2010, the Company acquired all of the equity interests of iPay, a provider of online bill payment solutions for both banks and credit unions, for \$301,143 paid in cash. The cash used for this acquisition was funded primarily through borrowings on available lines of credit and certain term notes issued concurrent with the acquisition.

The acquisition of iPay expanded the Company's presence in the growing electronic payments industry, strengthened the Company's electronic payments offering, and increased recurring revenue.

Through the Company's measurement period evaluation of the preliminary purchase price allocation, we identified a \$2,817 decrease in the current deferred tax liability assumed, a \$985 decrease in the long term deferred tax liability assumed and a \$216 increase in accrued expenses assumed, with a corresponding \$3,586 decrease in the goodwill arising from the acquisition. The measurement period adjustment was attributable to new information gathered related to the deferred tax liability of iPay in preparation of its final tax return. The measurement period adjustment was made retrospectively on the acquisition date, June 4, 2010, and did not impact the consolidated income statement.

Management has completed the purchase price allocation of iPay and its assessment of the fair value of acquired assets and liabilities assumed. The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of June 4, 2010, updated for the retrospective adjustment, are set forth below:

|  |            |
|--|------------|
| Current assets (inclusive of cash acquired of \$353) | \$ 3,692   |
| Long-term assets                                     | 6,362      |
| Identifiable intangible assets                       | 116,286    |
| Total liabilities assumed                            | (13,956)   |
| Total identifiable net assets                        | 112,384    |
| Goodwill   | 188,759    |
| Net assets acquired                                  | \$ 301,143 |

The goodwill of \$188,759 arising from this acquisition consists largely of the growth potential, synergies and economies of scale expected from combining the operations of the Company with those of iPay, together with the value of iPay's assembled workforce. Goodwill from this acquisition has been allocated between our Banking Systems and Services and our Credit Union Systems and Services segments based upon the extent to each segment is expected

to benefit from the synergies of the combination. Approximately 80% of the goodwill is expected to be deductible for income tax purposes.

The fair value of current assets acquired included accounts receivable of \$1,403, all of which was deemed to be collectible.

During fiscal year 2010, the Company incurred \$2,280 in costs related to the acquisition of iPay. These costs included fees for legal, accounting, valuation and other professional fees. These costs were included within general and administrative expenses.

The results of iPay's operations included in the Company's consolidated statement of operations from the acquisition date to June 30, 2010 included revenue of \$3,526 and after-tax net income of \$38.

*PEMCO Technology Services, Inc.*

On October 29, 2009, the Company acquired all of the issued and outstanding shares of PTSI, a provider of payment processing solutions primarily for the credit union industry, for \$61,841 paid in cash. The cash used for this acquisition was funded using borrowings against available lines of credit.

The acquisition of PTSI broadened the Company's product offerings within its electronic payments business and expanded the Company's presence in the credit union market beyond its core client base.

The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of October 29, 2009 are set forth below:

|  |           |
|--|-----------|
| Current assets (inclusive of cash acquired of \$2,275) | \$ 9,448  |
| Long-term assets                                       | 1,222     |
| Identifiable intangible assets                         | 34,912    |
| Total liabilities assumed                              | (3,572)   |
| Total identifiable net assets                          | 42,010    |
| Goodwill   | 19,831    |
| Net assets acquired                                    | \$ 61,841 |

The goodwill of \$19,831 arising from this acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company with those of PTSI, together with the value of PTSI's assembled workforce. All of the goodwill from this acquisition was assigned to the Credit Union Systems and Services segment. The Company and the former shareholder of PTSI jointly made an Internal Revenue Code Section 338(h)(10) election for this acquisition. This election allows treatment of this acquisition as an asset acquisition, which permits the Company to amortize goodwill for tax purposes.

The fair value of current assets acquired includes accounts receivable of \$4,686, all of which was deemed collectible.

During fiscal 2010, the Company incurred \$249 in costs related to the acquisition of PTSI. These costs included fees for legal, accounting, valuation and other professional fees. These costs were included within general and administrative expenses.

The results of PTSI's operations included in the Company's consolidated statement of operations from the acquisition date to June 30, 2010 included revenue of \$33,738 and after tax net income of \$3,289.

*Goldleaf Financial Solutions, Inc.*

On October 1, 2009, the Company acquired all of the issued and outstanding shares of GFSI, a provider of integrated technology and payment processing solutions to financial institutions of all sizes. According to the terms of the merger agreement, each share of GFSI stock issued and outstanding was converted into the right to receive \$0.98 in cash, for a total cash outlay of \$19,085. The acquisition of GFSI has broadened the Company's market presence, strengthened our competitive position by diversifying our product and service offerings and provided significant cost synergies to the combined organization. In addition to the cash paid to acquire the outstanding shares of GFSI, the Company also paid \$48,532 in cash at closing to settle various outstanding obligations of GFSI, resulting in a total cash outlay of \$67,617. This cash outlay was funded using existing operating cash.

The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of October 1, 2009 are set forth below:

|  |           |
|--|-----------|
| Current assets (inclusive of cash acquired of \$1,319) | \$ 12,952 |
| Long-term assets                                       | 7,466     |
| Identifiable intangible assets                         | 39,845    |
| Total liabilities assumed                              | (25,727)  |
| Total identifiable net assets                          | 34,536    |
| Goodwill   | 33,081    |
| Net assets acquired                                    | \$ 67,617 |

The goodwill of \$33,081 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company with those of GFSI, together with the value of GFSI's assembled workforce. All of the goodwill was assigned to the Banking Systems and Services segment. None of this goodwill is expected to be deductible for income tax purposes.

The fair value of current assets acquired includes trade accounts receivable with a fair value of \$8,089. The gross amount receivable is \$8,769, of which \$680 was expected to be uncollectible. In addition, the Company acquired an investment in direct financing leases, which includes lease payments receivable of \$4,210, all of which was assumed to be collectible.

During fiscal 2010, the Company incurred \$1,708 in costs related to the acquisition of GFSI. These costs included fees for legal, accounting, valuation and other professional fees. These costs were included within general and administrative expenses.

The results of GFSI's operations included in the Company's consolidated statement of operations from the acquisition date to June 30, 2010 included revenue of \$44,794 and after tax net income of \$1,204.

The accompanying consolidated statements of income for the fiscal years ended June 30, 2011, 2010 and 2009 do not include any revenues and expenses related to these acquisitions prior to the respective closing dates of each acquisition. The following unaudited pro forma consolidated financial information is presented as if these acquisitions had occurred at the beginning of the periods presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if these acquisitions had actually occurred during those periods, or the results that may be obtained in the future as a result of these acquisitions.



| <b>Pro Forma (unaudited)</b>                   | Year Ended              |  |                            |
|--|-------------------------|--|----------------------------|
|  | <u>2011</u><br>(Actual) | June 30,<br><u>2010</u><br>(Pro Forma) | <u>2009</u><br>(Pro Forma) |
| Revenue  | \$ 966,897              | \$ 910,218                             | \$ 906,078                 |
| Gross profit                                   | \$ 399,334              | \$ 381,160                             | \$ 370,474                 |
| Net income                                     | \$ 137,471              | \$ 122,435                             | \$ 113,464                 |
| Diluted net income per share                   | \$ 1.59                 | \$ 1.43                                | \$ 1.34                    |
| Diluted weighted average shares<br>outstanding | 86,687                  | 85,381                                 | 84,830                     |
| Basic net income per share                     | \$ 1.60                 | \$ 1.45                                | \$ 1.35                    |
| Basic weighted average shares<br>outstanding   | 85,948                  | 84,558                                 | 84,118                     |

## NOTE 13: BUSINESS SEGMENT INFORMATION

The Company is a provider of integrated computer systems that perform data processing (available for in-house or service bureau installations) for banks and credit unions. The Company's operations are classified into two business segments: bank systems and services ( Bank ) and credit union systems and services ( Credit Union ). The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue. The Company measures the performance of its segments on gross profit.

|                                  | For the Year Ended June 30, 2011 |                     |                |
|----------------------------------|----------------------------------|---------------------|----------------|
|                                  | <u>Bank</u>                      | <u>Credit Union</u> | <u>Total</u>   |
| <b>REVENUE</b>                   |                                  |                     |                |
| License                          | \$ 37,424                        | \$ 15,643           | \$ 53,067      |
| Support and service              | 665,297                          | 186,956             | 852,253        |
| Hardware                         | 44,171                           | 17,406              | 61,577         |
| <b>Total revenue</b>             | <b>746,892</b>                   | <b>220,005</b>      | <b>966,897</b> |
| <b>COST OF SALES</b>             |                                  |                     |                |
| Cost of license                  | 5,008                            | 1,277               | 6,285          |
| Cost of support and service      | 394,040                          | 121,877             | 515,917        |
| Cost of hardware                 | 31,850                           | 13,511              | 45,361         |
| <b>Total cost of sales</b>       | <b>430,898</b>                   | <b>136,665</b>      | <b>567,563</b> |
| <b>GROSS PROFIT</b>              | <b>\$ 315,994</b>                | <b>\$ 83,340</b>    | <b>399,334</b> |
| <b>OPERATING EXPENSES</b>        |                                  |                     | <b>183,017</b> |
| <b>INTEREST INCOME (EXPENSE)</b> |                                  |                     | <b>(8,805)</b> |

**INCOME BEFORE INCOME TAXES** **\$ 207,512**

|                                   | <b>For the Year Ended June 30, 2010</b> |                            |                     |
|-----------------------------------|---|----------------------------|---------------------|
|                                   | <u><b>Bank</b></u>                      | <u><b>Credit Union</b></u> | <u><b>Total</b></u> |
| <b>REVENUE</b>                    |   |                            |                     |
| License                           | \$ 38,117                               | \$ 14,108                  | \$ 52,225           |
| Support and service               | 585,470                                 | 135,034                    | 720,504             |
| Hardware                          | 48,695                                  | 15,162                     | 63,857              |
| <b>Total revenue</b>              | <b>672,282</b>                          | <b>164,304</b>             | <b>836,586</b>      |
| <b>COST OF SALES</b>              |   |                            |                     |
| Cost of license                   | 4,732                                   | 1,095                      | 5,827               |
| Cost of support and service       | 348,489                                 | 89,987                     | 438,476             |
| Cost of hardware                  | 35,961                                  | 11,202                     | 47,163              |
| <b>Total cost of sales</b>        | <b>389,182</b>                          | <b>102,284</b>             | <b>491,466</b>      |
| <b>GROSS PROFIT</b>               | <b>\$ 283,100</b>                       | <b>\$ 62,020</b>           | <b>345,120</b>      |
| <b>OPERATING EXPENSES</b>         |   |                            | 162,867             |
| <b>INTEREST INCOME (EXPENSE)</b>  |   |                            | (1,457)             |
| <b>INCOME BEFORE INCOME TAXES</b> |   |                            | <b>\$ 180,796</b>   |

|                                  | <b>For the Year Ended June 30, 2009</b> |                            |                     |
|----------------------------------|---|----------------------------|---------------------|
|                                  | <u><b>Bank</b></u>                      | <u><b>Credit Union</b></u> | <u><b>Total</b></u> |
| <b>REVENUE</b>                   |   |                            |                     |
| License                          | \$ 45,169                               | \$ 13,265                  | \$ 58,434           |
| Support and service              | 514,748                                 | 99,494                     | 614,242             |
| Hardware                         | 57,794                                  | 15,123                     | 72,917              |
| <b>Total revenue</b>             | <b>617,711</b>                          | <b>127,882</b>             | <b>745,593</b>      |
| <b>COST OF SALES</b>             |   |                            |                     |
| Cost of license                  | 6,113                                   | 772                        | 6,885               |
| Cost of support and service      | 321,489                                 | 64,348                     | 385,837             |
| Cost of hardware                 | 42,297                                  | 11,175                     | 53,472              |
| <b>Total cost of sales</b>       | <b>369,899</b>                          | <b>76,295</b>              | <b>446,194</b>      |
| <b>GROSS PROFIT</b>              | <b>\$ 247,812</b>                       | <b>\$ 51,587</b>           | <b>299,399</b>      |
| <b>OPERATING EXPENSES</b>        |   |                            | 141,513             |
| <b>INTEREST INCOME (EXPENSE)</b> |   |                            | (576)               |

**INCOME BEFORE INCOME TAXES** \$ 157,310

|                                    | For the Year Ended June 30, |             |             |
|------------------------------------|-----------------------------|-------------|-------------|
|                                    | <u>2011</u>                 | <u>2010</u> | <u>2009</u> |
| <b>Depreciation expense, net</b>   |                             |             |             |
| Bank systems and services          | \$ 38,830                   | \$ 34,497   | \$ 36,816   |
| Credit Unions systems and services | 3,082                       | 2,092       | 2,043       |
| Total                              | \$ 41,912                   | \$ 36,589   | \$ 38,859   |
| <b>Amortization expense, net</b>   |                             |             |             |
| Bank systems and services          | \$ 35,507                   | \$ 27,675   | \$ 22,779   |
| Credit Unions systems and services | 13,095                      | 7,244       | 2,509       |
| Total                              | \$ 48,602                   | \$ 34,919   | \$ 25,288   |
| <b>Capital expenditures</b>        |                             |             |             |
| Bank systems and services          | \$ 23,730                   | \$ 51,392   | \$ 30,752   |
| Credit Unions systems and services | 8,355                       | 3,117       | 810         |
| Total                              | \$ 32,085                   | \$ 54,509   | \$ 31,562   |

|                                    | For the Year Ended June 30, |             |
|------------------------------------|-----------------------------|-------------|
|                                    | <u>2011</u>                 | <u>2010</u> |
| <b>Property and equipment, net</b> |                             |             |
| Bank systems and services          | \$ 235,929                  | \$ 241,596  |
| Credit Unions systems and services | 34,257                      | 33,074      |
| Total                              | \$ 270,186                  | \$ 274,670  |
| <b>Intangible assets, net</b>      |                             |             |
| Bank systems and services          | \$ 594,507                  | \$ 611,245  |
| Credit Unions systems and services | 239,579                     | 245,065     |
| Total                              | \$ 834,086                  | \$ 856,310  |

The Company has not disclosed any additional asset information by segment, as the information is not produced internally and its preparation is impracticable.

#### NOTE 14: SUBSEQUENT EVENTS

In accordance with ASC Topic 855, *Subsequent Events*, the Company has evaluated any significant events occurring from the date of these financial statements through the date they were issued. The effects of any such events upon conditions existing as of the balance sheet date have been reflected within the financial statements to the extent that the effects were material. Any significant events occurring after the balance sheet date that do not relate to conditions existing as of that date are disclosed below.

On August 19, 2011, the Company's Board of Directors declared a quarterly cash dividend of \$0.105 per share of common stock, payable on September 28, 2011 to shareholders of record on September 8, 2011.

**QUARTERLY FINANCIAL INFORMATION**  
(unaudited)

|  | <b>For the Year Ended June 30, 2011</b> |                  |                  |                  |                  |
|--|---|------------------|------------------|------------------|------------------|
|  | <b>Quarter 1</b>                        | <b>Quarter 2</b> | <b>Quarter 3</b> | <b>Quarter 4</b> | <b>Total</b>     |
| <b>REVENUE</b>                         |   |                  |                  |                  |                  |
| License                                | \$ 9,459                                | \$ 15,460        | \$ 13,025        | \$ 15,123        | \$ 53,067        |
| Support and service                    | 210,610                                 | 212,378          | 210,074          | 219,191          | 852,253          |
| Hardware                               | 14,753                                  | 14,797           | 17,086           | 14,941           | 61,577           |
| <b>Total revenue</b>                   | <b>234,822</b>                          | <b>242,635</b>   | <b>240,185</b>   | <b>249,255</b>   | <b>966,897</b>   |
| <b>COST OF SALES</b>                   |   |                  |                  |                  |                  |
| Cost of license                        | 1,178                                   | 2,079            | 1,145            | 1,883            | 6,285            |
| Cost of support and service            | 125,806                                 | 126,857          | 131,010          | 132,244          | 515,917          |
| Cost of hardware                       | 10,805                                  | 10,880           | 12,740           | 10,936           | 45,361           |
| <b>Total cost of sales</b>             | <b>137,789</b>                          | <b>139,816</b>   | <b>144,895</b>   | <b>145,063</b>   | <b>567,563</b>   |
| <b>GROSS PROFIT</b>                    | <b>97,033</b>                           | <b>102,819</b>   | <b>95,290</b>    | <b>104,192</b>   | <b>399,334</b>   |
| <b>OPERATING EXPENSES</b>              |   |                  |                  |                  |                  |
| Selling and marketing                  | 16,362                                  | 16,979           | 16,929           | 17,791           | 68,061           |
| Research and development               | 15,390                                  | 15,837           | 15,716           | 16,452           | 63,395           |
| General and administrative             | 12,506                                  | 15,014           | 12,142           | 11,899           | 51,561           |
| <b>Total operating expenses</b>        | <b>44,258</b>                           | <b>47,830</b>    | <b>44,787</b>    | <b>46,142</b>    | <b>183,017</b>   |
| <b>OPERATING INCOME</b>                | <b>52,775</b>                           | <b>54,989</b>    | <b>50,503</b>    | <b>58,050</b>    | <b>216,317</b>   |
| <b>INTEREST INCOME (EXPENSE)</b>       |   |                  |                  |                  |                  |
| Interest income                        | 17                                      | 32               | 61               | 15               | 125              |
| Interest expense                       | (2,892)                                 | (2,487)          | (1,710)          | (1,841)          | (8,930)          |
| <b>Total interest income (expense)</b> | <b>(2,875)</b>                          | <b>(2,455)</b>   | <b>(1,649)</b>   | <b>(1,826)</b>   | <b>(8,805)</b>   |
| <b>INCOME BEFORE INCOME TAXES</b>      | <b>49,900</b>                           | <b>52,534</b>    | <b>48,854</b>    | <b>56,224</b>    | <b>207,512</b>   |
| <b>PROVISION FOR INCOME TAXES</b>      | <b>18,129</b>                           | <b>16,489</b>    | <b>15,773</b>    | <b>19,650</b>    | <b>70,041</b>    |
| <b>NET INCOME</b>                      | <b>\$ 31,771</b>                        | <b>\$ 36,045</b> | <b>\$ 33,081</b> | <b>\$ 36,574</b> | <b>\$137,471</b> |
| Diluted net income per share           | <b>\$ 0.37</b>                          | <b>\$ 0.42</b>   | <b>\$ 0.38</b>   | <b>\$ 0.42</b>   | <b>\$ 1.59</b>   |

|                                 |                |                |                |                |                |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Diluted weighted average shares |                |                |                |                |                |
| Outstanding                     | <b>86,147</b>  | <b>86,523</b>  | <b>86,972</b>  | <b>87,090</b>  | <b>86,687</b>  |
| Basic net income per share      | <b>\$ 0.37</b> | <b>\$ 0.42</b> | <b>\$ 0.38</b> | <b>\$ 0.42</b> | <b>\$ 1.60</b> |
| Basic weighted average shares   |                |                |                |                |                |
| Outstanding                     | <b>85,469</b>  | <b>85,770</b>  | <b>86,218</b>  | <b>86,335</b>  | <b>85,948</b>  |

**QUARTERLY FINANCIAL INFORMATION**  
(unaudited)

|  | For the Year Ended June 30, 2010 |                |                |                |                |
|--|----------------------------------|----------------|----------------|----------------|----------------|
|  | Quarter 1                        | Quarter 2      | Quarter 3      | Quarter 4      | Total          |
| <b>REVENUE</b>                         |                                  |                |                |                |                |
| License                                | \$ 11,402                        | \$ 12,013      | \$ 16,391      | \$ 12,419      | \$ 52,225      |
| Support and service                    | 155,926                          | 184,143        | 182,090        | 198,345        | 720,504        |
| Hardware                               | 15,003                           | 14,705         | 17,068         | 17,081         | 63,857         |
| <b>Total revenue</b>                   | <b>182,331</b>                   | <b>210,861</b> | <b>215,549</b> | <b>227,845</b> | <b>836,586</b> |
| <b>COST OF SALES</b>                   |                                  |                |                |                |                |
| Cost of license                        | 1,120                            | 1,091          | 1,804          | 1,812          | 5,827          |
| Cost of support and service            | 95,810                           | 110,026        | 114,667        | 117,973        | 438,476        |
| Cost of hardware                       | 11,010                           | 10,664         | 12,565         | 12,924         | 47,163         |
| <b>Total cost of sales</b>             | <b>107,940</b>                   | <b>121,781</b> | <b>129,036</b> | <b>132,709</b> | <b>491,466</b> |
| <b>GROSS PROFIT</b>                    | <b>74,391</b>                    | <b>89,080</b>  | <b>86,513</b>  | <b>95,136</b>  | <b>345,120</b> |
| <b>OPERATING EXPENSES</b>              |                                  |                |                |                |                |
| Selling and marketing                  | 12,125                           | 14,866         | 16,765         | 17,119         | 60,875         |
| Research and development               | 10,148                           | 12,339         | 14,001         | 14,332         | 50,820         |
| General and administrative             | 10,181                           | 14,512         | 12,088         | 14,391         | 51,172         |
| <b>Total operating expenses</b>        | <b>32,454</b>                    | <b>41,717</b>  | <b>42,854</b>  | <b>45,842</b>  | <b>162,867</b> |
| <b>OPERATING INCOME</b>                | <b>41,937</b>                    | <b>47,363</b>  | <b>43,659</b>  | <b>49,294</b>  | <b>182,253</b> |
| <b>INTEREST INCOME (EXPENSE)</b>       |                                  |                |                |                |                |
| Interest income                        | 41                               | 4              | 9              | 107            | 161            |
| Interest expense                       | (90)                             | (143)          | (186)          | (1,199)        | (1,618)        |
| <b>Total interest income (expense)</b> | <b>(49)</b>                      | <b>(139)</b>   | <b>(177)</b>   | <b>(1,092)</b> | <b>(1,457)</b> |
| <b>INCOME BEFORE INCOME TAXES</b>      | <b>41,888</b>                    | <b>47,224</b>  | <b>43,482</b>  | <b>48,202</b>  | <b>180,796</b> |

|   |                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>PROVISION FOR<br/>INCOME TAXES</b>             | 15,614           | 17,247           | 11,847           | 18,218           | 62,926           |
| <b>NET INCOME</b>                                 | <b>\$ 26,274</b> | <b>\$ 29,977</b> | <b>\$ 31,635</b> | <b>\$ 29,984</b> | <b>\$117,870</b> |
| Diluted net income per share                      | <b>\$ 0.31</b>   | <b>\$ 0.35</b>   | <b>\$ 0.37</b>   | <b>\$ 0.35</b>   | <b>\$ 1.38</b>   |
| Diluted weighted average<br>shares<br>outstanding | <b>84,823</b>    | <b>85,224</b>    | <b>85,480</b>    | <b>85,998</b>    | <b>85,381</b>    |
| Basic net income per share                        | <b>\$ 0.31</b>   | <b>\$ 0.36</b>   | <b>\$ 0.37</b>   | <b>\$ 0.35</b>   | <b>\$ 1.39</b>   |
| Basic weighted average<br>shares<br>outstanding   | <b>83,870</b>    | <b>84,341</b>    | <b>84,694</b>    | <b>85,325</b>    | <b>84,558</b>    |

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out under the supervision and with the participation of our management, including our Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. For this purpose, disclosure controls and procedures include controls and procedures designed to ensure that information that is required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The Management's Report on Internal Control over Financial Reporting required by this Item 9A is in Item 8, Financial Statements and Supplementary Data. Deloitte & Touche LLP has audited our internal control over financial reporting as of June 30, 2011; their report is included in Item 8 of this Form 10K.

During the fiscal quarter ending June 30, 2011, there has been no change in internal control over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting, except for the integration of iPay which was completed during the fourth quarter of the year ended June 30, 2011 (see Note 12 to the Consolidated Financial Statements in Item 8).

Attached as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K are certifications of the CEO and the CFO, which are required in accord with Rule 13a-14 of the Securities Exchange Act of 1934 (the Exchange Act). This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications and it should be read in conjunction with the certifications.

**ITEM 9B. OTHER INFORMATION**

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

See the information under the captions Election of Directors , Corporate Governance , Audit Committee Report Executive Officers and Significant Employees and Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive Proxy Statement for our 2011 Annual Meeting of Stockholders which is incorporated herein by reference.

#### **ITEM 11. EXECUTIVE COMPENSATION**

See the information under captions Compensation Discussion and Analysis , Executive Compensation , Compensation Committee Report , Corporate Governance , and Directors Compensation in the Company s definitive Proxy Statement which is incorporated herein by reference.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

See the information under the captions Stock Ownership of Certain Stockholders and Equity Compensation Plan Information in the Company s definitive Proxy Statement which is incorporated herein by reference.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

See the information under the captions Election of Directors and Certain Relationships and Related Transactions in the Company s definitive Proxy Statement which is incorporated herein by reference.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

See the information under the captions Audit Committee Report and Ratification of the Selection of the Company s Independent Registered Public Accounting Firm in the Company s definitive Proxy Statement which is incorporated herein by reference.

### **PART IV**



**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a) The following documents are filed as part of this Report:**

(1) The following Consolidated Financial Statements of the Company and its subsidiaries and the Report of Independent Registered Public Accounting Firm thereon appear under Item 8 of this Report:

-

Reports of Independent Registered Public Accounting Firm

-

Consolidated Statements of Income for the Years Ended June 30, 2011, 2010 and 2009

-

Consolidated Balance Sheets as of June 30, 2011 and 2010

-

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended June 30, 2011, 2010 and 2009

-

Consolidated Statements of Cash Flows for the Years Ended June 30, 2011, 2010 and 2009

-

Notes to the Consolidated Financial Statements

(2) The following Financial Statement Schedules filed as part of this Report appear under Item 8 of this Report:

There are no schedules included because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

(3) See Index to Exhibits set forth below.

All exhibits not attached hereto are incorporated by reference to a prior filing as indicated.

Index to Exhibits

Exhibit No.

Description

3.1.7

Restated Certificate of Incorporation, attached as Exhibit 3.1.7 to the Company's Annual Report on Form 10-K for the Year ended June 30, 2003.

3.2.2

Restated and Amended Bylaws, attached as Exhibit 3.2.2 to the Company's Current Report on Form 8-K filed November 13, 2008.

10.3

The Company's 1995 Non-Qualified Stock Option Plan, attached as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the Year Ended June 30, 1996.

10.8

Form of Indemnity Agreement which has been entered into as of August 27, 1996, between the Company and each of its Directors and Executive Officers, attached as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the Year Ended June 30, 1996.

10.9

The Company's 1996 Stock Option Plan, attached as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the Year Ended June 30, 1997.

10.21

Amendment to the Company's 1996 Stock Option Plan, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 5, 2005.

10.27

The Company's Restricted Stock Plan, attached as Exhibit 10.27 to the Company's Annual Report on Form 10-K filed September 12, 2006.

10.28

The Company's 2005 Non-Qualified Stock Option Plan, attached as Exhibit 10.28 to the Company's Annual Report on Form 10-K filed September 12, 2006.

10.29

Jack Henry & Associates, Inc. 2006 Employee Stock Purchase Plan, attached as Exhibit 10.29 to the Company's Current Report on Form 8-K filed November 6, 2006.

10.31

Form of Termination Benefits Agreement, attached as Exhibit 10.31 to the Company's Current Report on Form 8-K filed September 10, 2007.

10.32

Form of Restricted Stock Agreement (executives), attached as Exhibit 10.32 to the Company's Current Report on Form 8-K filed September 10, 2007.

10.33

Form of Restricted Stock Agreement (Vice presidents and certain other managers), attached as Exhibit 10.33 to the Company's Current Report on Form 8-K filed September 10, 2007.

10.34

Amendment No. 2 to Jack Henry & Associates, Inc. 2006 Employee Stock Purchase Plan, attached as Exhibit 10.34 to the Company's Current Report on Form 8-K filed November 1, 2007.

10.35

Jack Henry & Associates, Inc. 2007 Annual Incentive Plan, attached as Exhibit 10.35 to the Company's Current Report on Form 8-K filed November 1, 2007.

10.36

Jack Henry & Associates, Inc. 1995 Non-Qualified Stock Option Plan, as amended May 9, 2008, attached as Exhibit 10.36 to the Company's Annual Report on Form 10-K filed August 29, 2008.

10.37

Jack Henry & Associates, Inc. 1996 Stock Option Plan, as amended May 9, 2008, attached as Exhibit 10.37 to the Company's Annual Report on Form 10-K filed August 29, 2008.

10.38

Jack Henry & Associates, Inc. 2005 Non-Qualified Stock Option Plan, as amended and restated May 9, 2008, attached as Exhibit 10.38 to the Company's Annual Report on Form 10-K filed August 29, 2008.

10.39

Revised Form of Restricted Stock Agreement (executives), attached as Exhibit 10.39 to the Company's Quarterly Report on Form 10-Q filed November 6, 2009.

10.40

Amended and Restated Credit Agreement among Jack Henry & Associates, Inc., Wells Fargo Bank, National Association, Bank of America, N.A., regions Bank and U.S. Bank National Association, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 9, 2010.

10.41

Amendment to Jack Henry & Associates Inc. Restricted Stock Plan dated August 20, 2010, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 24, 2010.

10.42

Form of Restricted Stock Unit Award Agreement, attached as Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 24, 2010.

10.43

Jack Henry & Associates Inc. Restricted Stock Plan, as amended and restated effective November 9, 2010, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 12, 2010.

21.1

List of the Company's subsidiaries.

23.1

Consent of Independent Registered Public Accounting Firm.

31.1

Certification of Chief Executive Officer.

31.2

Certification of Chief Financial Officer.

32.1

Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.

32.2

Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

101.INS\*

XBRL Instance Document

101.SCH\*

XBRL Taxonomy Extension Schema Document

101.CAL\*

XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\*

XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\*

XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*

XBRL Taxonomy Extension Presentation Linkbase Document

\* Furnished with this report on Form 10-K are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at June 30, 2011 and June 30, 2010, (ii) the Consolidated Statements of Income for the years ended June 30, 2011, 2010 and 2009, (iii) the Consolidated Statements of Cash Flows for the years ended June 30, 2011, 2010 and 2009, and (iv) Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 29th day of August, 2011.

JACK HENRY & ASSOCIATES, INC., Registrant

By /s/ John F. Prim

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <u>Signature</u>                                  | <u>Capacity</u>   | <u>Date</u>     |
|---|---|-----------------|
| <u>/s/ Michael E. Henry</u><br>Michael E. Henry   | Chairman of the Board and Director                                      | August 29, 2011 |
| <u>/s/ John F. Prim</u><br>John F. Prim           | Chief Executive Officer and Director                                    | August 29, 2011 |
| <u>/s/ Kevin D. Williams</u><br>Kevin D. Williams | Chief Financial Officer and Treasurer<br>(Principal Accounting Officer) | August 29, 2011 |
| <u>/s/ Jerry D. Hall</u><br>Jerry D. Hall         | Executive Vice President and Director                                   | August 29, 2011 |
| <u>/s/ James J. Ellis</u><br>James J. Ellis       | Director  | August 29, 2011 |
| <u>/s/ Craig R. Curry</u>                         | Director  | August 29, 2011 |

Craig R. Curry

/s/ Wesley A. Brown

Director

August 29, 2011

Wesley A. Brown

/s/ Matthew Flanigan

Director

August 29, 2011

Matthew Flanigan

/s/ Marla Shepard

Director

August 29, 2011

Marla Shepard