

# 2011

ANNUAL REPORT

**jack henry**  
& ASSOCIATES INC.®

# MISSION STATEMENT

To protect and increase the value of our stockholders' investment by providing quality products and services to our customers. In accomplishing this we feel it is important to:

- Concentrate our activities on what we know best – information systems and services for financial institutions.
- Provide outstanding commitment and service to our customers so that the perceived value of our products and services is consistent with the real value.
- Maintain a work environment that is personally, professionally, and financially rewarding for our employees.

# GUIDING PRINCIPLES

We have maintained the focused work ethic and ideals established by our co-founders – Jack Henry and Jerry Hall – 35 years ago. The time-tested fundamentals guiding our company are:

- Do the right thing,
- Do whatever it takes, and
- Have fun.

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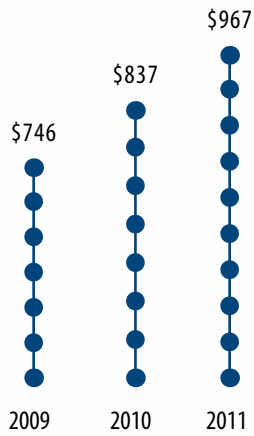
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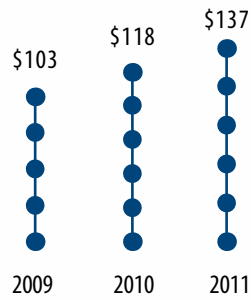
# FINANCIAL HIGHLIGHTS

FY 11 | 01

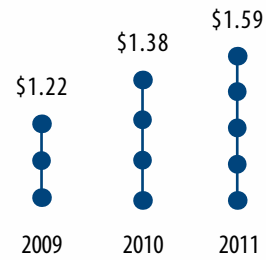
(In millions except per share)



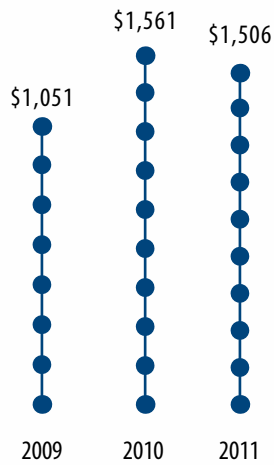
Revenue



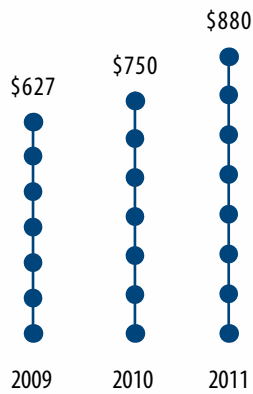
Net Income



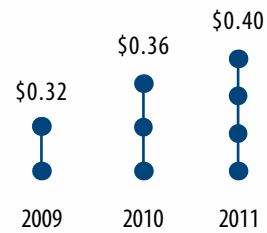
Diluted Earnings *per share*



Total Assets



StockHolder's Equity



Dividends Declared *per share*

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## TO OUR SHAREHOLDERS,

Fiscal year 2011 marked our 35th year in business, 25th year as a public company, and another year of company-wide progress and solid financial performance with revenue, earnings, and operating cash flow reaching record highs. Our company continued to prosper in a highly competitive and consolidating industry by providing high-quality banking and business solutions and service levels that exceed customer expectations. And we effectively responded to the challenging economy by maintaining our proven business strategy and conservative business principles and performance management.

During fiscal year 2011 (ended June 30), total revenue increased to a record \$967 million. Net income was \$137 million or \$1.59 per diluted share, as compared to net income of \$118 million or \$1.38 per diluted share reported in fiscal year 2010. We generated strong cash flow from operating activities of \$240 million, return on assets was nine percent, and return on equity was 17 percent. We generated excellent profitability with a 22 percent operating margin.

Our revenue mix for the year consisted of \$53 million in software license fees or six percent of total revenue, \$852 million in support and services or 88 percent of total revenue, and \$62 million in hardware sales or six percent of total revenue.

Recurring revenue, which provides the financial stability to support our ongoing growth, was approximately 80 percent in fiscal year 2011, compared to 78 and 75 percent in fiscal years 2010 and 2009, respectively. We expect all three components of our recurring revenue – software maintenance fees, outsourcing services, and electronic payment processing – to continue to increase.

Backlog, which consists of contracted sales of products and services that were not delivered by fiscal year-end, reached \$359 million, a nine percent increase over the \$329 million reported last year.

Our ability to reduce operating expenses once again positively impacted the year's financial performance and we continue to evaluate practical near- and long-term opportunities to contain costs. Despite our strategic focus on expense reduction, we determined it was appropriate to restore our associates' salaries – our largest expense – which had been reduced as an alternative to layoffs. Staff reductions would have negatively impacted the specialized workforce we need as the economy recovers and product sales and implementations return to historic levels.

We also completed the integration of our three most recent acquisitions during the fiscal year. Goldleaf Financial Solutions, Inc., which was acquired in October 2010, was integrated into our ProfitStars brand. Pemco Technologies, which was acquired in October 2010, was rebranded as JHA Payment Processing Solutions™ (PPS). iPay Technologies, which was acquired in June 2010, established our fourth primary brand. Each of these acquisitions expanded our product and service offering with proven solutions, added loyal customers to our client roster, generated cross-sales opportunities among our respective customer bases, increased our market presence and potential, and diversified our revenue stream. We are pleased with the performance of each of these acquisitions and the increased value that they provide to our customers and shareholders.

As we enter a new fiscal year, we will continue to refine our proven business strategy as necessary and maintain our company-wide focus on providing the high quality products and services our diverse customers and prospects need to attract and serve their customers, successfully compete in their markets, control operating costs, and improve operations. We believe we have significant opportunities to continue to grow our business organically, particularly with our electronic payment processing business.

Our strategic and financial position combined with our customers' loyalty, our associates' dedication to our mission, and our shareholders' commitment to our company give us confidence in our ability to continue to execute in an economic environment that remains challenging and uncertain.

Jack Prim, Chief Executive Officer

Tony Wormington, President

Kevin Williams, Chief Financial Officer & Treasurer



**JACK PRIM**



**TONY WORMINGTON**



**KEVIN WILLIAMS**

# THINGS YOU MIGHT NOT KNOW

## ABOUT JACK HENRY & ASSOCIATES

Jack Henry Banking is the primary technology provider for more than 18 percent of U.S. banks.

Symitar is the primary technology provider for 10 percent of credit unions.

ProfitStars has client relationships with 60 percent of U.S. banks and 18 percent of credit unions.

ProfitStars has client relationships with 56 of the largest 100 banks, including five of the top 10, and 60 of the largest 100 credit unions, including seven of the top 10.

iPay has client relationships with more than 25 percent of U.S. banks and 23 percent of credit unions.

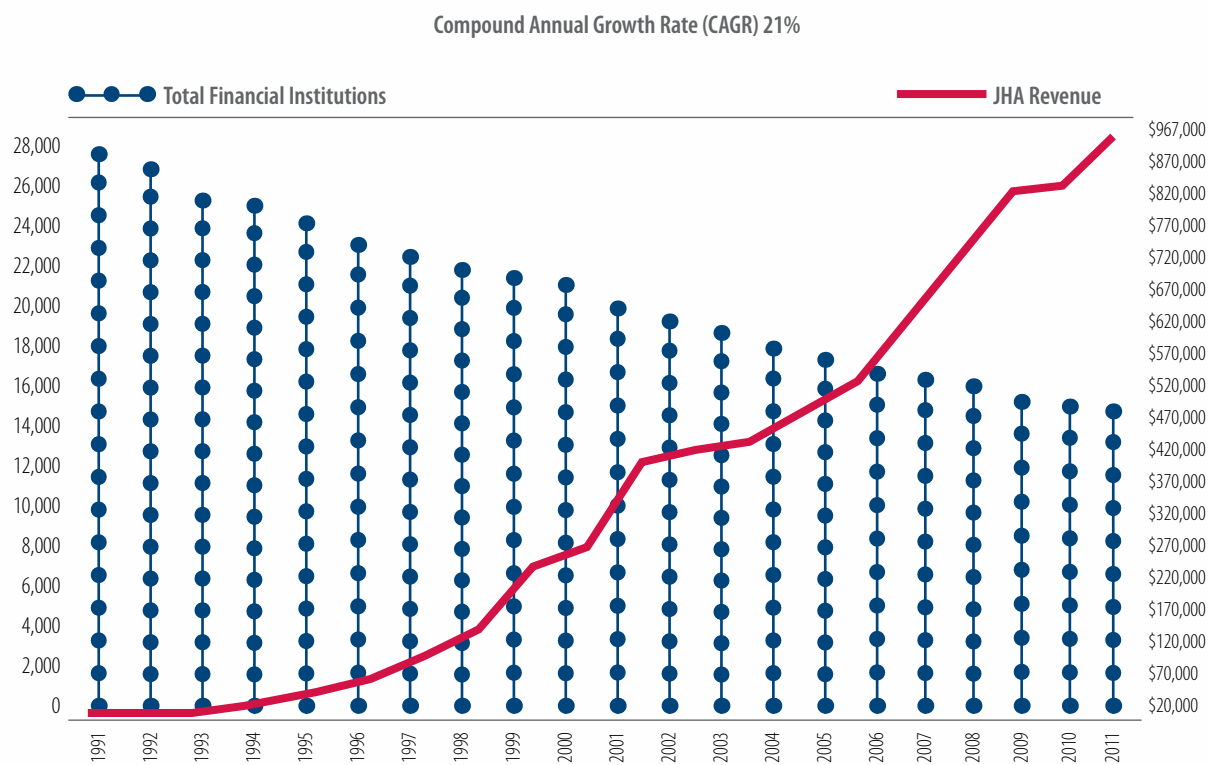
Outsourcing continued to be the delivery method of choice in FY11:

- 70 percent of new core bank clients chose outsourced delivery
- 26 existing core bank clients elected to migrate from in-house processing to outsourcing
- 40 percent of our core bank client base is now outsourced
- 51 percent of our new core credit union clients chose outsourced delivery
- 7 existing core credit union clients elected to migrate from in-house processing to outsourcing
- 26 percent of our core credit union client base is now outsourced

On behalf of our outsourced clients, our five data centers collectively:

- Processed 10.5+ million deposit/loan accounts daily
- Processed 33+ million checks monthly
- Processed 20+ million ATM and debit "on-us" transactions monthly
- Processed 15+ million incoming ACH transactions monthly
- Generated 2+ million paper statements and 213,000+ electronic statements monthly

During the past 20 years as consolidation has reduced the total number of financial institutions by approximately half, Jack Henry & Associates has continued to show strong revenue growth.



# JACK HENRY & ASSOCIATES

Jack Henry & Associates was founded in 1976 to support community banks with in-house data processing systems. Today, Jack Henry & Associates is a financially sound, service-focused company that sells and supports more than 250 products and services that financial institutions of all asset sizes and charters, diverse business outside the financial industry, and other technology providers need to capitalize on business opportunities and solve operational challenges. We deliver our technology-driven products and services through four primary brands:

- **Jack Henry Banking** – Our original business line provides community and mid-tier banks with core and complementary solutions that process financial transactions and automate information management and business processes.
- **Symitar** – Founded in 1985 and acquired by Jack Henry & Associates in 2000, Symitar provides credit unions of all sizes with core and complementary solutions that process financial transactions and automate information management and business processes.
- **ProfitStars** – Founded in 2006 to consistently brand the specialized products and services assembled through our focused diversification acquisition strategy, ProfitStars provides financial services organizations of all asset sizes and charters, and diverse businesses outside the financial industry with highly specialized financial performance, imaging and payments processing, information security and risk management, and retail delivery solutions.
- **iPay Technologies** – Founded in 2001 and acquired by Jack Henry & Associates in 2010, iPay Technologies provides consumer and small business electronic bill payment solutions and person-to-person electronic payment services to community and mid-tier banks, credit unions of all sizes, and other companies that provide information processing and online banking solutions.

Each brand shares a fundamental commitment to provide high quality business solutions, service levels that consistently exceed customer expectations, full integration of appropriate solutions and practical new technologies, customer-driven enhancements, and integrity-based business relationships.

We currently serve more than 11,300 diverse customers. The quality of our solutions, our high service levels, and the fundamental way we do business typically foster long-term and highly referenceable customer relationships, attract prospective customers, and have enabled us to capture substantial market share.

Our primary competitive advantage is the level of customer service we provide. Our support infrastructure and strict service standards provide service levels we believe to be the highest in the markets we serve, resulting in high levels of customer satisfaction and retention. We accurately measure customer satisfaction using comprehensive annual surveys and more than 80,000 random surveys initiated by the service requests we received this year. Dedicated surveys are also used to grade specific aspects of our customer experience, including product implementation, education, and consulting services. The results of this year's surveys once again confirmed that our service quality exceeded our customers' expectations. Our continuous survey process also helps us identify specific opportunities to enhance our support infrastructure and enhance the day-to-day service experience we provide.

Through internal product development, disciplined acquisitions, and alliances with companies offering niche solutions that complement our proprietary solutions we regularly introduce new products and services that expand our offering and generate new cross-sales opportunities within and among our four brands.

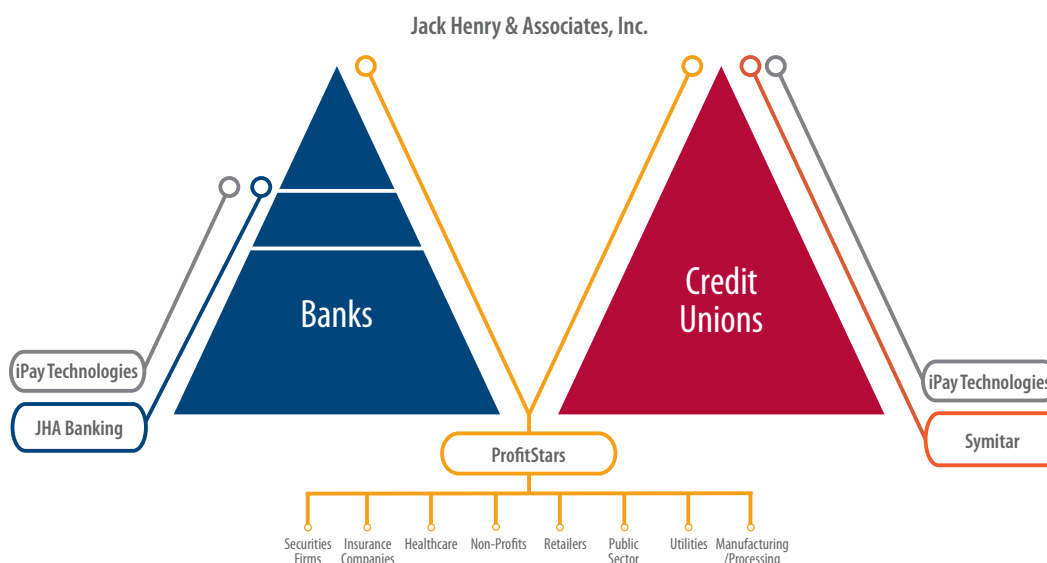
Despite the growing complexity of the markets and businesses we serve, the rapid advances in the technologies powering our solutions, and our highly competitive business environment, our consistent business strategy and conservative business principles have enabled us to:



- Prosper in our consolidating and competitive industry.
- Provide and support an extensive and growing product and service offering.
- Earn a large, loyal customer base.
- Capture substantial market share.
- Maintain a corporate culture that values integrity-based business relationships and recognizes premier customer service as our primary competitive advantage.
- Provide rewarding opportunities for our workforce.
- Maintain a strong balance sheet.
- Produce consistent returns for our stockholders.

We believe we are strategically and financially positioned to continue our progress and performance by focusing on six primary growth drivers:

- Maintaining our levels of customer satisfaction and retention by delivering high-quality business solutions and exceptional customer service.
- Increasing market share with targeted sales efforts.
- Expanding our existing customer relationships by cross selling additional products and services.
- Introducing new products and services that enhance our customers' existing technology platforms and leverage advancing technologies.
- Increasing recurring revenue by optimizing outsourcing opportunities, transaction-based processing fees, and ongoing software maintenance and support fees.
- Pursuing disciplined acquisitions that complement our internal growth, continue our focused diversification, add proven solutions that expand our existing offering, and expand our presence in the markets we serve.



# JACK HENRY BANKING™

Jack Henry Banking is a leading provider of the core and complementary solutions banks need to process financial transactions, automate business processes, and manage mission-critical information. We now serve as the primary technology partner for approximately 1,500 banks ranging from community banks to multi-billion dollar mid-tier banks and multi-bank holding companies. Our nationwide customer base includes more than 20 percent of mid-tier banks with assets ranging from \$1 billion to \$30 billion.

Our technology platforms have been selected to replace every major competitive alternative marketed today and enable diverse banks to implement solutions tailored to support their unique operating environments and evolving business strategies. Jack Henry Banking provides:

- Three highly scalable, functionally distinct core systems.
- More than 100 complementary solutions that enhance our core system functionality and enable banks to respond to unique business opportunities and operational issues.
- In-house, outsourced, and hosted delivery alternatives.
- State-of-the-art integration.
- Connectivity between our core and complementary solutions and third-party products.
- Scalable hardware platforms.
- Production-proven change management, conversion, and installation service.
- The support infrastructure required to serve our customers as a single point of contact, support, and accountability 24/7/365.
- Initial and ongoing education.
- Professional services.
- Regional and national user meetings and educational conferences.
- Forms and operating supplies.
- Marketing support.
- Operational assessments.
- Regulatory compliance.

**DETAILED INFORMATION ABOUT JACK HENRY BANKING AND ITS PRODUCT AND SERVICE OFFERING IS AVAILABLE AT [WWW.JACKHENRYBANKING.COM](http://WWW.JACKHENRYBANKING.COM).**

"I have always considered Jack Henry Banking to be more like a partner to our bank rather than just a provider of bank products and services. As an administrator of systems and services, you need a company with people that you can rely on or lean on when making the hard decisions to keep a community bank competing and progressing with technology. Jack Henry Banking has provided us with the tools and opportunities to succeed."

Randy Miller, Senior Vice President  
First State Bank of Middlebury  
Middlebury, Indiana

"Jack Henry Banking allows American Business Bank to remain competitive with the larger banks by offering the same types of products and services. Jack Henry continues to acquire businesses which allow our bank to remain on the cutting-edge. Jack Henry Banking provides more of a partnership relationship to our bank rather than just a vendor relationship."

Debbie Dair, Senior Vice President  
American Business Bank  
Los Angeles, California

"The Bank of Southside Virginia purchased its first banking software package from Jack Henry in the early '80s. Since its inception, I have noticed that the company's philosophy – "Do the Right Thing, Do whatever it Takes, and Have Fun" – is believed, enforced, and practiced. Thirty years later, they still provide the quality service standards that the company's founders, Jack Henry and Jerry Hall, implemented. We value our relationship and commend them for superior products supported by their professional personnel."

Carol C. Chappell, First Vice President and Cashier  
The Bank of Southside Virginia  
Carson, Virginia

"Jack Henry Banking offers all of the products and services we need and they are fully integrated to the core system, saving time, creating more efficiency in daily operations, and preventing the frustration and costs associated with interfaces. It is a partnership. We have a relationship where we can work together to solve a problem rather than finger point."

Susan W. Barrett, CPA, Senior Vice President & Operations Officer  
the little bank, Inc.  
Greenville, North Carolina

# SYMITAR™

Symitar is a leading provider of the core and complementary solutions credit unions of all asset sizes need to process financial transactions and automate information management and business processes. Symitar is the primary technology partner for more than 700 credit unions, including 58 of the 167 credit unions with assets exceeding \$1 billion as of June 30, 2011. Throughout Symitar's 27-year history, its flagship Episys® system has maintained a 98 percent customer retention rate which we consider to be a strong endorsement of our product and service quality and business practices.

Our technology platforms enable diverse credit unions to implement solutions customized to support their dynamic operating environments and business strategies. Symitar provides: Three highly scalable, functionally distinct core systems.

- Two highly scalable, functionally distinct core systems.
- More than 50 complementary solutions and back-office efficiency tools that enhance our core system functionality and enable credit unions to respond to unique business opportunities and operational issues.
- In-house, outsourced, and hosted delivery alternatives.
- State-of-the-art integration.
- Connectivity between our core and complementary solutions and third-party products.
- Scalable hardware platforms.
- Production-proven change management, conversion, and installation services.
- The support infrastructure required to serve our customers as a single point of contact, support, and accountability 24/7/365.
- Initial and ongoing education.
- Professional services.
- Regional and national user meetings and educational conferences.
- Forms and operating supplies.
- Marketing support.
- Operational assessments.
- Regulatory compliance.

**DETAILED INFORMATION ABOUT SYMITAR AND ITS PRODUCT AND SERVICE OFFERING IS AVAILABLE AT [WWW.SYMITAR.COM](http://WWW.SYMITAR.COM).**

“As the result of our conversion to Symitar, we were able to improve member service while reducing our member service staff by more than 10 percent. During the years since our conversion, we have found Symitar’s software development to be innovative and their customer focus has been excellent. We are very pleased with the results that we have been able to achieve because of our partnership with Symitar.”

Jim Jordan, Chief Executive Officer  
Schools Financial Credit Union  
Sacramento, California

“Switching to Symitar has proved to be one of the best business decisions I’ve made during my almost 30 years in the credit union business. I have dealt with various data processors over the years and I have found Symitar to be a leader when staying on the cutting-edge of new technology. Whether I’m dealing with tech support, my rep, or looking for upgrades and new products, I am always dealt with on a personal and professional level.”

Rick Williams, President/Chief Executive Officer  
HealthCare Assoc. FCU  
Cincinnati, Ohio

“Symitar’s commitment to customer service and client satisfaction differentiates them from the competition. Their employees are not just committed to performing their duties, they genuinely care about the client’s needs. Everyone within the organization has the same level of commitment in meeting customers’ needs and ensuring their satisfaction. This commitment empowers their customers with confidence and provides them with competitive advantages.”

Karl Mann, Vice President Information Technology  
Associated Credit Union  
Norcross Georgia

“Symitar’s flexibility allows us to be quicker to market with products, more adaptable to changes in the industry, and gives us an edge over our competition. Symitar continues to develop new products and offer new technologies that keep our organization on the leading-edge of financial services. Also, Symitar’s ease of customization has helped our organization become much more efficient and productive. Symitar is an outstanding vendor and partner. They demonstrate integrity in all they do, from their sales presentations, to their contracts, to their installations, and ongoing support.”

Marty O’Connell, SVP/CIO  
66 Federal Credit Union  
Bartlesville, Oklahoma

# PROFITSTARS®

The ProfitStars division of Jack Henry & Associates is a leading software, solutions, and technology innovator. It supports financial institutions that range from the largest institutions in the world to the smallest community institutions as well as businesses outside the financial industry. ProfitStars' solutions strategically complement its customers' existing technology platforms with proven financial performance, imaging and payments processing, information security and risk management, and retail delivery solutions. These products and services have been implemented by approximately 12,000 domestic and international customers including the banks and credit unions served by Jack Henry Banking, Symitar, and iPay Technologies; 56 of the largest 100 banks; and 60 of the largest 100 credit unions. ProfitStars' client roster also includes securities firms, insurance companies, healthcare providers, non-profit organizations, the public sector, utilities, retailers, and manufacturing and processing entities.

These specialized solutions, which were assembled through 18 strategic acquisitions, enable its customers to capitalize on specific revenue and growth opportunities, mitigate and control financial and operational risks, and contain operating costs with:

- Financial performance solutions.
- Imaging and payment processing solutions.
- Information security and risk management solutions.
- Retail delivery solutions.
- In-house, outsourced, and hosted delivery.
- Production-proven change management, conversion, and installation.
- Hardware.
- Initial and ongoing education.
- 24/7/365 support.
- Regulatory compliance.
- Forms and operating supplies.
- Marketing support.
- National user meetings and educational conferences.
- Professional services.

We continue to establish strategic partnerships with Independent Sales Organizations (ISOs) and Value Added Resellers (VARs) that have the expertise to sell select ProfitStars solutions in new markets and specific segments of our nontraditional markets. These third-party sales initiatives are natural extensions of ProfitStars' direct sales initiatives, and are an increasingly important component of the sales model targeting businesses outside the financial industry.

**DETAILED INFORMATION ABOUT PROFITSTARS AND ITS PRODUCT AND SERVICE OFFERING IS AVAILABLE AT [WWW.PROFITSTARS.COM](http://WWW.PROFITSTARS.COM)**

“The decision to do business with a software partner is often driven by software features, but with ProfitStars, the people behind the product make the difference. They are part of our team in supporting our valuable customer relationships.”

Daniel Robbins, Senior Vice President – Director of Retail Support  
Atlantic Southern Bank  
Macon, Georgia

“These products have helped keep us relevant within our customer base and have ultimately allowed us to continue growing our deposit base and profits. All of the ProfitStars team members that support us are responsive, professional, knowledgeable, and we enjoy our long-standing relationship with each of them.”

Robert Rothrock, Senior Vice President  
NexBank, SSB  
Dallas, Texas

“Relationships mean a lot to us, whether they are with our customers or our vendors. We strive to have strong relationships that enable us to do business smoothly and with ease. ProfitStars gives that same ‘community’ feel that we look to achieve. They work with us as a partner toward a common goal.”

Ellen M. May, IT Manager  
Cayuga Lake National Bank  
Union Springs, NY

“The companies that JHA has purchased and placed under the ProfitStars umbrella provide us with the technology to take our customer and profit management to the next level. By utilizing RPM, Margin Maximizer, and Synapsys® we are able to make better pricing decisions based upon the entire customer relationship, not only from a profitability and ROE standpoint but also by taking into consideration other pertinent information captured in Synapsys. Our holding company – Westar Bank Holding Company, Inc. – was just named the best performing community bank between \$500 million and \$5 billion in assets for 2010 and I believe that our ProfitStars tools contributed to our strong performance.”

Anita G. Werner, Vice President/CRM Program Manager  
Bank of the West  
El Paso, Texas

# iPAY TECHNOLOGIES

iPay Technologies is a leading provider of consumer and small business electronic bill payment solutions and person-to-person electronic payment services to community and mid-tier banks, credit unions of all sizes, and other technology providers. Through strategic partnerships with more than 50 providers of information processing and online banking solutions, iPay supports more financial institutions with online bill payment solutions than any other provider in the United States. We currently serve more than 3,700 domestic financial institutions, including approximately 40 percent of the community banks and more than half of the credit unions that offer electronic bill payment services.

Our highly configurable electronic payments platform and turnkey online bill payment solutions, which can be integrated with any online banking platform, include:

- Consumer online bill pay.
- Small business online bill pay.
- Person-to-person payments.
- Bill presentment.
- Remittance solutions.
- Alternative payments.
- Account-to-account transfers.
- Expedited bill pay.
- Online invoicing.
- Turnkey implementations and operations.
- End-user service and support.

**DETAILED INFORMATION ABOUT iPAY AND ITS SERVICE OFFERING  
IS AVAILABLE AT [WWW.IPAYTECHNOLOGIES.COM](http://WWW.IPAYTECHNOLOGIES.COM).**



"I have worked with a variety of technology companies in the financial services marketplace. Without hesitation, the staff at iPay and their commitment to the customer experience is unmatched. I continue to be extremely impressed with iPay's attention to anticipating our needs as a partner. We couldn't be happier with how our teams and solutions complement one another."

Paul Walker, Vice President, Sales and Marketing  
Q2 eBanking  
Austin, Texas

"iPay's technology and customer service is comparable to none. Their customer support and consistent technological advances stay ahead of the competition. The iPay teams are both knowledgeable and professional and it is, and continues to be, an exceptional business. Anyone who has had to work with vendors knows the angst to finding the company they can depend on to provide exceptional service and iPay has proven over and over again that it is outstanding in all categories."

Romaine Russo, Assistant Vice President, Electronic Banking  
QNB Bank  
Quakertown, Pennsylvania

"What differentiates iPay's technology from the competition? I can say confidently that it is the service. I used to sell products to credit unions and iPay was great to work with. They made the installation and implementation so easy. I began working at Alabama Telco Credit Union in 2006 and when we began looking at bill payment providers I stated, 'There is only one option – iPay.'"

Stanton Davis, Vice President  
Alabama Telco Credit Union  
Birmingham, Alabama

"iPay has enabled us to offer a bill payment solution to our members that is very easy-to-use and interfaces with our core processor. The customer service has always been exceptional and we consider iPay a valued business partner."

Laura H. Ryll, Executive Vice President/Chief Operating Officer  
Gwinnett Federal Credit Union  
Lawrenceville, Georgia



## 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 "JKHY". 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.

	<u>Fiscal 2011</u>		<u>Fiscal 2010</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<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:

	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
<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

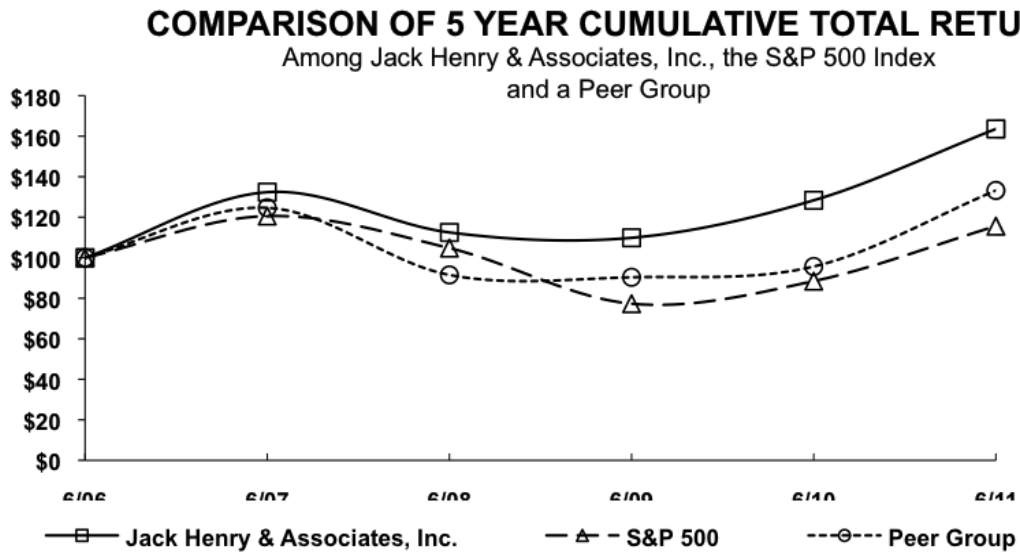
The declaration and payment of any future dividends will continue to be at the discretion of our Board of Directors and will depend upon, among other factors, our earnings, capital requirements, contractual restrictions, and operating and financial condition. The Company does not currently foresee any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

## SELECTED FINANCIAL DATA

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

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

## 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

	Year ended June 30,		<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

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

	Year Over Year Change	
	<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

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

	Year ended June 30,		% Change
	<u>2011</u>	<u>2010</u>	
Selling and marketing	\$ 68,061	\$ 60,875	12%
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 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

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

	Year ended June 30,		<u>% Change</u>
	<u>2011</u>	<u>2010</u>	
General and administrative	\$ 51,561	\$ 51,172	1%
Percentage of total revenue	5%	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*

	Year Ended June 30,		% Change
	<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*

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

<b>Year Over Year Change</b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
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**

	Year Ended June 30,		<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***

	Year Ended June 30,		<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**

	Year Ended June 30,		% Change
	2010	2009	
Research and development	<b>\$ 50,820</b>	\$ 42,901	<b>+18%</b>
Percentage of total revenue	<b>6%</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 for the current year due primarily to current year acquisitions, which added \$8,126 in expense during fiscal 2010.

### **General and Administrative**

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

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

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

	Year ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
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><u>\$ 240,132</u></b>	<u>\$ 218,698</u>	<u>\$ 206,588</u>

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	<u>\$43,988</u>	<u>\$55,942</u>	<u>\$89,512</u>	<u>\$1,487</u>	<u>\$190,929</u>

## 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.

## **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 the Jack Henry & Associates, Inc. Form 10-K for the year ended June 30, 2011). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

## **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.

# 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.



## 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

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

(In Thousands, Except Per Share Data)

	YEAR ENDED JUNE 30,		
	2011	2010	2009
<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>	836,586	745,593
<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>	491,466	446,194
<b>GROSS PROFIT</b>	<b>399,334</b>	345,120	299,399
<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>	162,867	141,513
<b>OPERATING INCOME</b>	<b>216,317</b>	182,253	157,886
<b>INTEREST INCOME (EXPENSE)</b>			
Interest income	125	161	781
Interest expense	(8,930)	(1,618)	(1,357)
<b>Total interest income (expense)</b>	<b>(8,805)</b>	(1,457)	(576)
<b>INCOME BEFORE INCOME TAXES</b>	<b>207,512</b>	180,796	157,310
<b>PROVISION FOR INCOME TAXES</b>	<b>70,041</b>	62,926	54,208
<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.

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

(In Thousands, Except Share and Per Share Data)

	<b>JUNE 30,</b>	
	<b>2011</b>	<b>2010</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>	393,102
<b>PROPERTY AND EQUIPMENT, net</b>	<b>270,186</b>	274,670
<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>	892,788
<b>Total assets</b>	<b>\$ 1,505,797</b>	\$ 1,560,560
<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>	444,385
<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	1,008	998
Additional paid-in capital	361,131	334,817
Retained earnings	827,222	724,142
Less treasury stock at cost		
14,406,635 shares at 06/30/11 and at 06/30/10	(309,585)	(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>2011</u>	<u>2010</u>	<u>2009</u>
<b>PREFERRED SHARES:</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>COMMON SHARES:</b>			
Shares, beginning of year	99,808,367	98,020,796	97,702,098
Shares issued for equity-based payment arrangements	857,348	1,689,457	196,727
Shares issued for Employee Stock Purchase Plan	100,458	98,114	121,971
Shares, end of year	<u>100,766,173</u>	<u>99,808,367</u>	<u>98,020,796</u>
<b>COMMON STOCK - PAR VALUE \$0.01 PER SHARE:</b>			
Balance, beginning of year	\$ 998	\$ 980	\$ 977
Shares issued for equity-based payment arrangements	9	17	2
Shares issued for Employee Stock Purchase Plan	1	1	1
Balance, end of year	<u>\$ 1,008</u>	<u>\$ 998</u>	<u>\$ 980</u>
<b>ADDITIONAL PAID-IN CAPITAL:</b>			
Balance, beginning of year	\$ 334,817	\$ 298,378	\$ 291,120
Shares issued upon exercise of stock options	16,837	26,569	1,882
Shares issued for Employee Stock Purchase Plan	2,456	1,953	1,888
Tax benefits from share-based compensation	2,298	4,666	1,216
Stock-based compensation expense	4,723	3,251	2,272
Balance, end of year	<u>\$ 361,131</u>	<u>\$ 334,817</u>	<u>\$ 298,378</u>
<b>RETAINED EARNINGS:</b>			
Balance, beginning of year	\$ 724,142	\$ 636,733	\$ 560,534
Net income	137,471	117,870	103,102
Dividends (2011-\$0.40 per share; 2010-\$0.36 per share; 2009- \$0.32 per share)	(34,391)	(30,461)	(26,903)
Balance, end of year	<u>\$ 827,222</u>	<u>\$ 724,142</u>	<u>\$ 636,733</u>
<b>TREASURY STOCK:</b>			
Balance, beginning of year	\$ (309,585)	\$ (309,585)	\$ (251,180)
Purchase of treasury shares	-	-	(58,405)
Balance, end of year	<u>\$ (309,585)</u>	<u>\$ (309,585)</u>	<u>\$ (309,585)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>\$ 879,776</u>	<u>\$ 750,372</u>	<u>\$ 626,506</u>

See notes to consolidated financial statements.

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

	<b>YEAR ENDED JUNE 30,</b>		
	<u>2011</u>	<u>2010</u>	<u>2009</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, net of effect of acquisitions:			
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
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:

	June 30,		
	2011	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	
	<u>493,836</u>	<u>474,991</u>	
Less accumulated depreciation	223,650	200,321	
Property and equipment, net	<u>\$ 270,186</u>	<u>\$ 274,670</u>	

<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 Systems and Services	Credit Union Systems and Services	Total
Balance, as of July 1, 2009	\$ 267,602	\$ 24,798	\$ 292,400
Goodwill acquired during the year	<u>136,347</u>	<u>104,773</u>	<u>241,120</u>
Balance, as of June 30, 2010	403,949	129,571	533,520
<b>Goodwill acquired during the year</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance, as of June 30, 2011</b>	<b><u>\$ 403,949</u></b>	<b><u>\$ 129,571</u></b>	<b><u>\$ 533,520</u></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:

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

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 Amount	Accumulated 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	Customer		Total
	Software	Relationships	
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	150,000	150,000
Capital leases	-	5,689
Other borrowings	1,015	2,244
	<b>151,015</b>	277,933
Less current maturities	23,076	5,201
Long-term debt, net of current maturities	<b>\$ 127,939</b>	<b>\$ 272,732</b>
<b>SHORT TERM DEBT</b>		
Bullet term loan	-	100,000
Capital Leases	3,016	-
Current maturities of long-term debt	23,076	5,201
Other borrowings	-	762
Notes payable and current maturities of long term debt	<b>\$ 26,092</b>	<b>\$ 105,963</b>

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

<u>Years ended June 30,</u>	
2012	26,092
2013	22,879
2014	22,552
2015	22,508
2016	60,000
Thereafter	-
	<u>\$ 154,031</u>

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:			
Federal	18,276	14,327	7,345
State	2,251	2,367	(280)
	\$ 70,041	\$ 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, franchise tax and vacation)	8,086	6,730
Net operating loss carryforwards	11,097	12,222
Other, net	1,122	514
	<u>25,677</u>	<u>23,341</u>
Deferred tax liabilities:		
Accelerated tax depreciation	(29,971)	(17,425)
Accelerated tax amortization	(81,265)	(73,355)
Other, net	(18,713)	(16,307)
	<u>(129,949)</u>	<u>(107,087)</u>
Net deferred tax liability before valuation allowance	(104,272)	(83,746)
Valuation allowance	(306)	(306)
Net deferred tax liability	<u>\$ (104,578)</u>	<u>\$ (84,052)</u>

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)
	<u>\$ (104,578)</u>	<u>\$ (84,052)</u>

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>
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%
	<u>33.8%</u>	<u>34.8%</u>	<u>34.5%</u>

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 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>
<b>Balance at June 30, 2011</b>	<b>\$ 8,897</b>

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:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding July 1, 2008	3,977	\$17.42	
Granted	50	17.45	
Forfeited	(19)	20.77	
Exercised	<u>(248)</u>	<u>12.28</u>	
Outstanding June 30, 2009	3,760	17.75	
Granted	50	23.65	
Forfeited	(71)	26.64	
Exercised	<u>(1,842)</u>	<u>16.70</u>	
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><u>990</u></b>	<b><u>\$15.65</u></b>	<b><u>\$14,216</u></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
<u>\$ 10.84 - \$28.52</u>	<u>990</u>	<u>990</u>	<u>2.75</u>	<u>\$ 15.65</u>	<u>\$ 15.65</u>

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 Average Grant Date Fair 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 Average Grant Date Fair Value
Non-vested shares at July 1, 2010	-	-
<b>Granted</b>	<b>293</b>	<b>15.77</b>
<b>Vested</b>	-	-
<b>Forfeited</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	<u>\$ 137,471</u>	<u>\$ 117,870</u>	<u>\$ 103,102</u>
Common share information:			
Weighted average shares outstanding for basic EPS	85,948	84,558	84,118
Dilutive effect of stock options and restricted stock	<u>739</u>	<u>823</u>	<u>712</u>
Shares for diluted EPS	<u>86,687</u>	<u>85,381</u>	<u>84,830</u>
Basic Earnings per Share	\$ 1.60	\$ 1.39	\$ 1.23
Diluted Earnings per Share	\$ 1.59	\$ 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	<u>(13,956)</u>
Total identifiable net assets	112,384
Goodwill	<u>188,759</u>
Net assets acquired	<u><u>\$ 301,143</u></u>

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	<u>(3,572)</u>
Total identifiable net assets	42,010
Goodwill	<u>19,831</u>
Net assets acquired	<u><u>\$ 61,841</u></u>

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	<u>(25,727)</u>
Total identifiable net assets	34,536
Goodwill	<u>33,081</u>
Net assets acquired	<u>\$ 67,617</u>

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.

**Pro Forma (unaudited)**

	Year Ended		
	June 30,		
	<u>2011</u> <u>(Actual)</u>	<u>2010</u> <u>(Pro Forma)</u>	<u>2009</u> <u>(Pro Forma)</u>
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 outstanding	86,687	85,381	84,830
Basic net income per share	\$ 1.60	\$ 1.45	\$ 1.35
Basic weighted average shares 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.

	<u>For the Year Ended June 30, 2011</u>		
	<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>	<u>746,892</u>	<u>220,005</u>	<u>966,897</u>
<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>	<u>430,898</u>	<u>136,665</u>	<u>567,563</u>
<b>GROSS PROFIT</b>	<u>\$ 315,994</u>	<u>\$ 83,340</u>	<u>399,334</u>
<b>OPERATING EXPENSES</b>			183,017
<b>INTEREST INCOME (EXPENSE)</b>			<u>(8,805)</u>
<b>INCOME BEFORE INCOME TAXES</b>			<u>\$ 207,512</u>

	<b>For the Year Ended June 30, 2010</b>		
	<b>Bank</b>	<b>Credit Union</b>	<b>Total</b>
<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>		
	<b>Bank</b>	<b>Credit Union</b>	<b>Total</b>
<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)
<b>INCOME BEFORE INCOME TAXES</b>			<b>\$ 157,310</b>

	<b>For the Year Ended June 30,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<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
<b>Total</b>	<b>\$ 41,912</b>	<b>\$ 36,589</b>	<b>\$ 38,859</b>
<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
<b>Total</b>	<b>\$ 48,602</b>	<b>\$ 34,919</b>	<b>\$ 25,288</b>
<b>Capital expenditures</b>			
Bank systems and services	\$ 23,730	\$ 51,392	\$ 30,752
Credit Unions systems and services	8,355	3,117	810
<b>Total</b>	<b>\$ 32,085</b>	<b>\$ 54,509</b>	<b>\$ 31,562</b>

	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	<u>34,257</u>	<u>33,074</u>
Total	<u>\$ 270,186</u>	<u>\$ 274,670</u>
<b>Intangible assets, net</b>		
Bank systems and services	\$ 594,507	\$ 611,245
Credit Unions systems and services	<u>239,579</u>	<u>245,065</u>
Total	<u>\$ 834,086</u>	<u>\$ 856,310</u>

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)

	For the Year Ended June 30, 2011				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
<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	\$ 0.37	\$ 0.42	\$ 0.38	\$ 0.42	\$ 1.59
Diluted weighted average shares outstanding	86,147	86,523	86,972	87,090	86,687
Basic net income per share	\$ 0.37	\$ 0.42	\$ 0.38	\$ 0.42	\$ 1.60
Basic weighted average shares outstanding	85,469	85,770	86,218	86,335	85,948

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 INCOME TAXES</b>	<b>15,614</b>	<b>17,247</b>	<b>11,847</b>	<b>18,218</b>	<b>62,926</b>
<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	\$ 0.31	\$ 0.35	\$ 0.37	\$ 0.35	\$ 1.38
Diluted weighted average shares outstanding	84,823	85,224	85,480	85,998	85,381
Basic net income per share	\$ 0.31	\$ 0.36	\$ 0.37	\$ 0.35	\$ 1.39
Basic weighted average shares outstanding	83,870	84,341	84,694	85,325	84,558

## BOARD OF DIRECTORS

**Michael E. Henry**  
Chairman  
Jack Henry & Associates  
Monett, Missouri

**John F. "Jack" Prim**  
Chief Executive Officer  
Jack Henry & Associates  
Monett, Missouri

**Jerry D. Hall**  
Vice Chairman and Executive Vice President  
Jack Henry & Associates  
Monett, Missouri

**Matthew C. Flanigan**  
Senior Vice President and Chief Financial Officer  
Leggett & Platt, Incorporated  
Carthage, Missouri

**Craig R. Curry**  
Chairman of the Board  
Central Bank  
Lebanon, Missouri

**Wesley A. Brown**  
Managing Director  
St. Charles Capital, LLC  
Denver, Colorado

**Marla K. Shepard**  
President and Chief Executive Officer  
California Coast Credit Union  
San Diego, California

## EXECUTIVE OFFICERS

**Michael E. Henry**  
Chairman

**John F. "Jack" Prim**  
Chief Executive Officer

**Tony L. Wormington**  
President

**Jerry D. Hall**  
Vice Chairman and Executive Vice President

**Kevin D. Williams**  
Chief Financial Officer and Treasurer

**Mark S. Forbis**  
Vice President and Chief Technology Officer

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## ANNUAL MEETING

The annual meeting of shareholders will be held on Thursday, November 17 at 11:00 a.m. Central at Jack Henry & Associates' Corporate Headquarters, Monett, Missouri.

## FORM 10-K

A copy of the company's Form 10-K is available upon request to the Chief Financial Officer at the corporate headquarters address or from our website at [www.jackhenry.com](http://www.jackhenry.com).

## TRANSFER AGENT AND REGISTRAR

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Providence, RI 02940

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& ASSOCIATES INC.®

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ProfitStars® 

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