

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
May 06, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-14112

**JACK HENRY & ASSOCIATES, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of Incorporation)

43-1128385  
(I.R.S Employer Identification No.)

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

(Address of Principle Executive Offices)

(Zip Code)

**417-235-6652**

(Registrant's telephone number, including area code)

**N/A**

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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(Do not check if a smaller reporting  
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

As of May 4, 2011, Registrant has 86,328,760 shares of common stock outstanding (\$0.01 par value).

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**PART 1. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

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

(In Thousands, Except Share and Per Share Data)  
(Unaudited)

|                                                        | <b>March 31, 2011</b> | <b>June 30, 2010</b> |
|--------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                          |                       |                      |
| <b>CURRENT ASSETS:</b>                                 |                       |                      |
| Cash and cash equivalents                              | \$ 54,383             | \$ 125,518           |
| Investments, at amortized cost                         | 1,000                 | 1,000                |
| Receivables                                            | 115,529               | 208,450              |
| Income tax receivable                                  | 6,170                 | 6,940                |
| Prepaid expenses and other                             | 33,929                | 31,762               |
| Prepaid cost of product                                | 20,743                | 19,432               |
| <b>Total current assets</b>                            | <b>231,754</b>        | <b>393,102</b>       |
| <b>PROPERTY AND EQUIPMENT, net</b>                     | <b>270,124</b>        | <b>274,670</b>       |
| <b>OTHER ASSETS:</b>                                   |                       |                      |
| Non-current prepaid cost of product                    | 17,396                | 11,093               |
| Computer software, net of amortization                 | 111,894               | 115,647              |
| Other non-current assets                               | 26,133                | 25,385               |
| Customer relationships, net of amortization            | 183,313               | 196,328              |
| Trade names                                            | 10,652                | 10,815               |
| Goodwill                                               | 533,520               | 533,520              |
| <b>Total other assets</b>                              | <b>882,908</b>        | <b>892,788</b>       |
| <b>Total assets</b>                                    | <b>\$ 1,384,786</b>   | <b>\$ 1,560,560</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                       |                      |
| <b>CURRENT LIABILITIES:</b>                            |                       |                      |
| Accounts payable                                       | \$ 8,754              | \$ 13,500            |
| Accrued expenses                                       | 42,110                | 46,403               |
| Deferred income tax liability                          | 10,449                | 10,449               |
| Accrued income taxes                                   | 3,441                 | 3,851                |
| Notes payable and current maturities of long term debt | 20,102                | 105,963              |
| Deferred revenues                                      | 122,296               | 264,219              |
| <b>Total current liabilities</b>                       | <b>207,152</b>        | <b>444,385</b>       |
| <b>LONG TERM LIABILITIES:</b>                          |                       |                      |

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|                                                                         |                     |              |
|-------------------------------------------------------------------------|---------------------|--------------|
| Non-current deferred revenues                                           | <b>15,311</b>       | 11,398       |
| Non-current deferred income tax liability                               | <b>78,604</b>       | 73,603       |
| Debt, net of current maturities                                         | <b>224,587</b>      | 272,732      |
| Other long-term liabilities                                             | <b>9,610</b>        | 8,070        |
| <b>Total long term liabilities</b>                                      | <b>328,112</b>      | 365,803      |
| <b>Total liabilities</b>                                                | <b>535,264</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 03/31/11 were 100,715,963                              |                     |              |
| Shares issued at 06/30/10 were 99,808,367                               | <b>1,007</b>        | 998          |
| Additional paid-in capital                                              | <b>358,385</b>      | 334,817      |
| Retained earnings                                                       | <b>799,715</b>      | 724,142      |
| Less treasury stock at cost                                             |                     |              |
| 14,406,635 shares at 03/31/11 and 06/30/10                              | <b>(309,585)</b>    | (309,585)    |
| <b>Total stockholders' equity</b>                                       | <b>849,522</b>      | 750,372      |
| <b>Total liabilities and stockholders' equity</b>                       | <b>\$ 1,384,786</b> | \$ 1,560,560 |

See notes to condensed consolidated financial statements

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

(In Thousands, Except Per Share Data)

(Unaudited)

|                                             | <b>Three Months Ended</b> |                    | <b>Nine Months Ended</b> |                    |
|---------------------------------------------|---------------------------|--------------------|--------------------------|--------------------|
|                                             | <b>March 31,</b>          |                    | <b>March 31,</b>         |                    |
|                                             | <b><u>2011</u></b>        | <b><u>2010</u></b> | <b><u>2011</u></b>       | <b><u>2010</u></b> |
| <b>REVENUE</b>                              |                           |                    |                          |                    |
| License                                     | \$ 13,025                 | \$ 16,391          | \$ 37,944                | \$ 39,806          |
| Support and service                         | 210,074                   | 182,090            | 633,062                  | 522,159            |
| Hardware                                    | 17,086                    | 17,068             | 46,636                   | 46,776             |
| <b>Total revenue</b>                        | <b>240,185</b>            | <b>215,549</b>     | <b>717,642</b>           | <b>608,741</b>     |
| <b>COST OF SALES</b>                        |                           |                    |                          |                    |
| Cost of license                             | 1,145                     | 1,804              | 4,402                    | 4,015              |
| Cost of support and service                 | 131,010                   | 114,667            | 383,673                  | 320,503            |
| Cost of hardware                            | 12,740                    | 12,565             | 34,425                   | 34,239             |
| <b>Total cost of sales</b>                  | <b>144,895</b>            | <b>129,036</b>     | <b>422,500</b>           | <b>358,757</b>     |
| <b>GROSS PROFIT</b>                         | <b>95,290</b>             | <b>86,513</b>      | <b>295,142</b>           | <b>249,984</b>     |
| <b>OPERATING EXPENSES</b>                   |                           |                    |                          |                    |
| Selling and marketing                       | 16,929                    | 16,765             | 50,270                   | 43,756             |
| Research and development                    | 15,716                    | 14,001             | 46,943                   | 36,488             |
| General and administrative                  | 12,142                    | 12,088             | 39,662                   | 36,781             |
| <b>Total operating expenses</b>             | <b>44,787</b>             | <b>42,854</b>      | <b>136,875</b>           | <b>117,025</b>     |
| <b>OPERATING INCOME</b>                     | <b>50,503</b>             | <b>43,659</b>      | <b>158,267</b>           | <b>132,959</b>     |
| <b>INTEREST INCOME</b>                      |                           |                    |                          |                    |
| <b>(EXPENSE)</b>                            |                           |                    |                          |                    |
| Interest income                             | 61                        | 9                  | 110                      | 54                 |
| Interest expense                            | (1,710)                   | (186)              | (7,089)                  | (419)              |
| <b>Total interest income</b>                |                           |                    |                          |                    |
| <b>(expense)</b>                            | <b>(1,649)</b>            | <b>(177)</b>       | <b>(6,979)</b>           | <b>(365)</b>       |
| <b>INCOME BEFORE INCOME TAXES</b>           | <b>48,854</b>             | <b>43,482</b>      | <b>151,288</b>           | <b>132,594</b>     |
| <b>PROVISION FOR INCOME TAXES</b>           | <b>15,773</b>             | <b>11,847</b>      | <b>50,391</b>            | <b>44,708</b>      |
| <b>NET INCOME</b>                           | <b>\$ 33,081</b>          | <b>\$ 31,635</b>   | <b>\$ 100,897</b>        | <b>\$ 87,886</b>   |
| Diluted net income per share                | \$ 0.38                   | \$ 0.37            | \$ 1.17                  | \$ 1.03            |
| Diluted weighted average shares outstanding | <b>86,972</b>             | <b>85,480</b>      | <b>86,553</b>            | <b>85,176</b>      |

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|                                           |          |          |          |          |
|-------------------------------------------|----------|----------|----------|----------|
| Basic net income per share                | \$ 0.38  | \$ 0.37  | \$ 1.18  | \$ 1.04  |
| Basic weighted average shares outstanding | 86,218   | 84,694   | 85,819   | 84,302   |
| Cash dividends paid per share             | \$ 0.105 | \$ 0.095 | \$ 0.295 | \$ 0.265 |

See notes to condensed consolidated financial statements

**JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands)

(Unaudited)

Nine Months Ended  
March 31,

20112010

**CASH FLOWS FROM OPERATING  
ACTIVITIES:**

|            |            |           |
|------------|------------|-----------|
| Net Income | \$ 100,897 | \$ 87,886 |
|------------|------------|-----------|

Adjustments to reconcile net income from  
operations

to cash from operating activities:

|                                      |        |        |
|--------------------------------------|--------|--------|
| Depreciation                         | 31,407 | 27,470 |
| Amortization                         | 36,210 | 24,559 |
| Change in deferred income taxes      | 5,001  | 9,524  |
| Expense for stock-based compensation | 3,438  | 2,408  |
| Loss on disposal of assets           | 449    | 452    |

Changes in operating assets and liabilities:

|                                                               |           |           |
|---------------------------------------------------------------|-----------|-----------|
| Change in receivables                                         | 92,921    | 87,281    |
| Change in prepaid expenses, prepaid cost of product and other | (9,631)   | (3,472)   |
| Change in accounts payable                                    | (4,746)   | (4,933)   |
| Change in accrued expenses                                    | (5,559)   | (4,902)   |
| Change in income taxes                                        | 2,781     | 2,960     |
| Change in deferred revenues                                   | (138,010) | (137,402) |

|                                    |         |        |
|------------------------------------|---------|--------|
| Net cash from operating activities | 115,158 | 91,831 |
|------------------------------------|---------|--------|

**CASH FLOWS FROM INVESTING  
ACTIVITIES:**

Payment for acquisitions, net of cash  
acquired

|                              |          |           |
|------------------------------|----------|-----------|
| Capital expenditures         | -        | (125,864) |
| Proceeds from sale of assets | (24,216) | (36,499)  |
| Computer software developed  | -        | 96        |
| Proceeds from investments    | (19,279) | (19,155)  |
| Purchase of investments      | 3,000    | 3,000     |
|                              | (2,999)  | (2,999)   |

|                                    |          |           |
|------------------------------------|----------|-----------|
| Net cash from investing activities | (43,494) | (181,421) |
|------------------------------------|----------|-----------|

**CASH FLOWS FROM FINANCING  
ACTIVITIES:**

|                                 |           |          |
|---------------------------------|-----------|----------|
| Borrowings on credit facilities | 399       | 72,197   |
| Repayments on credit facilities | (136,921) | (68,187) |
| Dividends paid                  | (25,324)  | (22,352) |

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|                                                                       |                    |                    |
|-----------------------------------------------------------------------|--------------------|--------------------|
| Excess tax benefits from stock-based compensation                     | 982                | 484                |
| Proceeds from issuance of common stock upon exercise of stock options | 18,759             | 27,730             |
| Minimum tax withholding payments related to option exercises          | (2,412)            | (4,152)            |
| Proceeds from sale of common stock, net                               | 1,718              | 1,398              |
| <b>Net cash from financing activities</b>                             | <b>(142,799)</b>   | <b>7,118</b>       |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                        | <b>\$ (71,135)</b> | <b>\$ (82,472)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                 | <b>\$ 125,518</b>  | <b>\$ 118,251</b>  |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                       | <b>\$ 54,383</b>   | <b>\$ 35,779</b>   |

Net cash paid for income taxes was \$41,627 and \$32,158 for the nine months ended March 31, 2011 and 2010, respectively. The Company paid interest of \$5,458 and \$400 for the nine months ended March 31, 2011 and 2010, respectively. Capital expenditures exclude property and equipment additions totaling \$3,640 and \$5,868 that were in accrued liabilities or were acquired via capital lease during the nine months ended March 31, 2011 and 2010, respectively.

See notes to condensed consolidated financial statements

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)

(Unaudited)

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.

*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 and liabilities. The fair value of the long term debt also approximates carrying value as estimated using discounted cash flows based on the Company's current incremental borrowing rates or quoted prices in active markets.

*Comprehensive income*

Comprehensive income for the three and nine month periods ended March 31, 2011 and 2010 equals the Company's net income.

*Interim financial statements*

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America applicable to interim condensed consolidated financial statements, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes, which are included in its Annual Report on Form 10-K ( Form 10-K ) for the year ended June 30, 2010. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated

financial statements included in its Form 10-K for the fiscal year ended June 30, 2010.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting solely of normal recurring adjustments) to present fairly the financial position of the Company as of March 31, 2011, and the results of its operations for the three and nine-month periods ended March 31, 2011 and 2010, and its cash flows for the nine-month periods ended March 31, 2011 and 2010.

The results of operations for the period ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire year.

## NOTE 2.

### ADDITIONAL INTERIM FOOTNOTE INFORMATION

The following additional information is provided to update the notes to the Company's annual consolidated financial statements for developments during the three and nine-month periods ended March 31, 2011.

#### *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 facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2010 and March 31, 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 March 31, 2011 is \$309,585. There were no repurchases of treasury stock during the nine months ended March 31, 2011.

#### *Commitments and contingencies*

For fiscal 2011, the Board of Directors approved bonus plans for its executive officers and general managers for the current fiscal year. Under the plan, bonuses may be paid following the end of the current fiscal year based upon achievement of operating income targets and upon attainment of a superior return on average assets in comparison with a group of peer companies selected by the Compensation Committee. For general managers, one half of each manager's bonus is contingent upon meeting individual business unit objectives established by the executive officer to whom the general manager reports.

The Company has entered into agreements that provide its executive officers with compensation totaling two years base salary and target bonus in the event the Company terminates the executive without cause within the period from 90 days before to two years after a change in control of the Company. The Company has also entered into agreements that provide its general managers with compensation totaling one year of base salary and target bonus under circumstances identical to those contained in the executive officer agreements.

## NOTE 3.

### RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board ( 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 Topic 985. Such arrangements are considered out of scope for this ASU.

In October 2009, the FASB also issued Accounting Standard Update 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.

#### NOTE 4.

#### DEBT

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

|                                                        | March 31,<br>2011 | June 30,<br>2010 |
|--------------------------------------------------------|-------------------|------------------|
| <b>LONG TERM DEBT</b>                                  |                   |                  |
| Long term revolving credit facility                    | \$ 90,000         | \$ 120,000       |
| Term loan                                              | 150,000           | 150,000          |
| Capital leases                                         | 2,347             | 5,689            |
| Other borrowings                                       | 1,237             | 2,244            |
|                                                        | 243,584           | 277,933          |
| Less current maturities                                | 18,997            | 5,201            |
| Long-term debt, net of current maturities              | \$ 224,587        | \$ 272,732       |
| <b>SHORT TERM DEBT</b>                                 |                   |                  |
| Bullet term loan                                       | \$ -              | \$ 100,000       |
| Capital leases                                         | 1,105             | -                |
| Current maturities of long-term debt                   | 18,997            | 5,201            |
| Other borrowings                                       | -                 | 762              |
| Notes payable and current maturities of long term debt | \$ 20,102         | \$ 105,963       |

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

#### *Revolving credit facility*

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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 March 31, 2011, the outstanding revolving loan balance was \$90,000, which was bearing interest at a rate of 2.31%.

Subsequent to the period end, the Company reduced the outstanding revolving loan balance to \$80,000 via a \$10,000 repayment made on April 8, 2011.

### *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 March 31, 2011, the outstanding balance was bearing interest at a rate of 2.31%. Of the \$150,000 outstanding, \$16,875 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 March 31, 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. Long term capital lease obligations were entered into during the year of which \$2,347 remains outstanding at March 31, 2011 and \$1,460 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling \$1,105 at March 31, 2011.

### *Other lines of credit*

The Company renewed an unsecured bank credit line on April 29, 2010 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (2.25% at March 31, 2011). The credit line was renewed through April 29, 2012. At March 31, 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 March 31, 2011). The credit line expires March 7, 2012 and is secured by \$1,000 of investments. At March 31, 2011, no amount was outstanding.

## NOTE 5.

### INCOME TAXES

The effective tax rate of 32.3% of income before income taxes for the quarter ended March 31, 2011 is higher than 27.2% for the same quarter in fiscal 2010 primarily due to one-time benefits provided by the Domestic Production

Activities Deduction (IRC Section 199), recognized during the quarter ended March 31, 2010.

At March 31, 2011, the Company had \$7,928 of gross unrecognized tax benefits, \$6,217 of which, if recognized would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. As of March 31, 2011, we had accrued interest and penalties of \$948 related to uncertain tax positions.

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 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, 2007 and all subsequent years still remain subject to examination as of March 31, 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 approximately \$2,000 - \$3,000 within twelve months of March 31, 2011.

#### NOTE 6.

#### STOCK-BASED COMPENSATION

For the three months ended March 31, 2011 and 2010, there was \$1,233 and \$911, respectively, in compensation expense from equity-based awards. Pre-tax operating income for the first nine months of fiscal 2011 and 2010 includes \$3,438 and \$2,408 of equity-based compensation costs, respectively. During the fiscal year the Company adopted an amendment to the Restricted Stock Plan to provide unit awards to employees. The Company issued both unit awards and share awards under the Restricted Stock Plan during the nine months ended March 31, 2011. The Company previously issued options to employees under the 1996 Stock Option Plan ( 1996 SOP ) and to outside directors under the 2005 Non-Qualified Stock Option Plan ( 2005 NSOP ). No stock options were issued under the 1996 SOP or the 2005 NSOP during the nine months ended March 31, 2011.

#### *2005 NSOP and 1996 SOP*

Changes in stock options outstanding and exercisable are as follows:

#### **2005 NSOP & 1996 SOP Stock options**

|                            | Number of<br>Shares | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value |
|----------------------------|---------------------|---------------------------------------|---------------------------------|
| Outstanding July 1, 2010   | 1,897               | \$ 18.58                              |                                 |
| <b>Granted</b>             | -                   | -                                     |                                 |
| <b>Forfeited</b>           | (46)                | 28.31                                 |                                 |
| <b>Exercised</b>           | (838)               | 21.59                                 |                                 |
| Outstanding March 31, 2011 | <b>1,013</b>        | <b>\$ 15.66</b>                       | <b>\$ 18,477</b>                |
| Vested March 31, 2011      | <b>1,013</b>        | <b>\$ 15.66</b>                       | <b>\$ 18,477</b>                |
| Exercisable March 31, 2011 | <b>1,013</b>        | <b>\$ 15.66</b>                       | <b>\$ 18,477</b>                |

Compensation cost related to outstanding options has been fully recognized. The weighted-average remaining contractual term on options currently exercisable as of March 31, 2011 was 2.99 years.

### *Restricted Stock Plan*

The 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 March 31, 2011, as well as activity for the nine months then ended:

### **Unit awards**

|                                    | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|------------------------------------|---------------|-----------------------------------------------------------|
| Non-vested units at July 1, 2010   | -             | \$ -                                                      |
| <b>Granted</b>                     | 293           | 15.77                                                     |
| <b>Vested</b>                      | -             | -                                                         |
| <b>Forfeited</b>                   | -             | -                                                         |
| Non-vested units at March 31, 2011 | <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              | <b>37%</b>   |
| Risk free interest rate | <b>0.9%</b>  |
| Dividend yield          | <b>1.60%</b> |
| Stock Beta              | <b>0.89</b>  |

At March 31, 2011, there was \$3,773 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 2.45 years.

The following table summarizes non-vested share awards as of March 31, 2011, as well as activity for the nine months then ended:

### **Share awards**

| <b>Shares</b> | <b>Weighted<br/>Average</b> |
|---------------|-----------------------------|
|---------------|-----------------------------|

|                                     |            | <b>Grant Date<br/>Fair Value</b> |
|-------------------------------------|------------|----------------------------------|
| Non-vested shares at July 1, 2010   | 387        | \$ 21.96                         |
| <b>Granted</b>                      | 102        | 24.54                            |
| <b>Vested</b>                       | (59)       | 23.75                            |
| <b>Forfeited</b>                    | (14)       | 21.88                            |
| Non-vested shares at March 31, 2011 | <b>416</b> | <b>\$ 22.34</b>                  |

At March 31, 2011, there was \$4,630 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 1.74 years.

#### NOTE 7.

#### EARNINGS PER SHARE

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

|                                         | Three Months Ended<br>March 31, |             | Nine Months Ended<br>March 31, |             |
|-----------------------------------------|---------------------------------|-------------|--------------------------------|-------------|
|                                         | <u>2011</u>                     | <u>2010</u> | <u>2011</u>                    | <u>2010</u> |
| Net Income                              | \$ <b>33,081</b>                | \$ 31,635   | \$ <b>100,897</b>              | \$ 87,886   |
| Common share information:               |                                 |             |                                |             |
| Weighted average shares outstanding for |                                 |             |                                |             |
| basic EPS                               | <b>86,218</b>                   | 84,694      | <b>85,819</b>                  | 84,302      |
| Dilutive effect of stock options and    |                                 |             |                                |             |
| restricted stock                        | <b>754</b>                      | 786         | <b>734</b>                     | 874         |
| Shares for diluted EPS                  | <b>86,972</b>                   | 85,480      | <b>86,553</b>                  | 85,176      |
| Basic Earnings per Share                | \$ <b>0.38</b>                  | \$ 0.37     | \$ <b>1.18</b>                 | \$ 1.04     |
| Diluted Earnings per Share              | \$ <b>0.38</b>                  | \$ 0.37     | \$ <b>1.17</b>                 | \$ 1.03     |

Per share information is based on the weighted average number of common shares outstanding for the periods ended March 31, 2011 and 2010. Stock options and restricted stock have been included in the calculation of income per share to the extent they are dilutive. No anti-dilutive stock options and restricted stock were excluded for the three month period ended March 31, 2011 (671 shares were excluded for the same period last year). Anti-dilutive stock options and restricted stock to purchase approximately 107 and 649 shares for the nine-month periods ended March 31, 2011 and 2010, respectively, were not included in the computation of diluted income per common share.

#### NOTE 8.

#### BUSINESS ACQUISITIONS

*iPay Technologies Holding Company, LLC*

On June 4, 2010, the Company acquired all of the equity interests of iPay Technologies Holding Company, LLC ( iPay ), a leading provider of online bill payment solutions for both banks and credit unions, for \$301,143 paid in cash.

Through the Company's ongoing evaluation of the preliminary purchase price allocation, it 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 the 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. The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of June 4, 2010, updated for the retrospective adjustment, are set forth below:

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

Management continues to assess the fair value of acquired assets and liabilities and evaluate the income tax implications of this business combination and the final purchase price allocation will be reported at a later date.

The accompanying consolidated statements of income for the three and nine-month periods ended March 31, 2010 do not include any revenues and expenses prior to the closing dates of each of the fiscal 2010 acquisitions, being Goldleaf Financial Solutions, Inc. ( GFSI ), PEMCO Technology Services, Inc. ( PTSI ) and iPay which were acquired on October 1, 2009, October 29, 2009, and June 4, 2010, respectively. The following unaudited pro forma consolidated financial information is presented as if these acquisitions had occurred at the beginning of the periods presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if these acquisitions had actually occurred during those periods, or the results that may be obtained in the future as a result of these acquisitions.

| <b>Pro Forma (unaudited)</b> | Three Months Ended<br>March 31,              |                                                 | Nine Months Ended<br>March 31,               |                                                 |
|------------------------------|----------------------------------------------|-------------------------------------------------|----------------------------------------------|-------------------------------------------------|
|                              | <b><u>2011</u></b><br><b><u>(Actual)</u></b> | <b><u>2010</u></b><br><b><u>(Pro Forma)</u></b> | <b><u>2011</u></b><br><b><u>(Actual)</u></b> | <b><u>2010</u></b><br><b><u>(Pro Forma)</u></b> |
| Revenue                      | \$ 240,185                                   | \$ 228,011                                      | \$ 717,642                                   | \$ 673,317                                      |
| Gross profit                 | 95,290                                       | 93,458                                          | 295,142                                      | 281,143                                         |
| Net Income                   | \$ 33,081                                    | \$ 32,633                                       | \$ 100,897                                   | \$ 92,267                                       |
| Earnings per share - diluted | \$ 0.38                                      | \$ 0.38                                         | \$ 1.17                                      | \$ 1.08                                         |

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|                            |                |         |                |         |
|----------------------------|----------------|---------|----------------|---------|
| Diluted Shares             | <b>86,972</b>  | 85,480  | <b>86,553</b>  | 85,176  |
| Earnings per share - basic | \$ <b>0.38</b> | \$ 0.39 | \$ <b>1.18</b> | \$ 1.09 |
| Basic Shares               | <b>86,218</b>  | 84,694  | <b>85,819</b>  | 84,302  |

NOTE 9.

BUSINESS SEGMENT INFORMATION

The Company is a leading provider of integrated computer systems that perform data processing (both in-house and outsourced) for banks and credit unions. The Company's operations are classified into two business segments: bank systems and services and credit union systems and services. 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.

|                             | Three Months Ended<br>March 31, 2011 |                     |                  | Three Months Ended<br>March 31, 2010 |                     |                  |
|-----------------------------|--------------------------------------|---------------------|------------------|--------------------------------------|---------------------|------------------|
|                             | <u>Bank</u>                          | <u>Credit Union</u> | <u>Total</u>     | <u>Bank</u>                          | <u>Credit Union</u> | <u>Total</u>     |
| <b>REVENUE</b>              |                                      |                     |                  |                                      |                     |                  |
| License                     | \$ 8,464                             | \$ 4,561            | \$ 13,025        | \$ 12,097                            | \$ 4,294            | \$ 16,391        |
| Support and service         | 163,354                              | 46,720              | 210,074          | 146,010                              | 36,080              | 182,090          |
| Hardware                    | 11,672                               | 5,414               | 17,086           | 12,711                               | 4,357               | 17,068           |
| <b>Total</b>                | <b>183,490</b>                       | <b>56,695</b>       | <b>240,185</b>   | <b>170,818</b>                       | <b>44,731</b>       | <b>215,549</b>   |
| <b>COST OF SALES</b>        |                                      |                     |                  |                                      |                     |                  |
| Cost of license             | 770                                  | 375                 | 1,145            | 1,416                                | 388                 | 1,804            |
| Cost of support and service | 100,355                              | 30,655              | 131,010          | 89,765                               | 24,902              | 114,667          |
| Cost of hardware            | 8,523                                | 4,217               | 12,740           | 9,375                                | 3,190               | 12,565           |
| <b>Total</b>                | <b>109,648</b>                       | <b>35,247</b>       | <b>144,895</b>   | <b>100,556</b>                       | <b>28,480</b>       | <b>129,036</b>   |
| <b>GROSS PROFIT</b>         | <b>\$ 73,842</b>                     | <b>\$ 21,448</b>    | <b>\$ 95,290</b> | <b>\$ 70,262</b>                     | <b>\$ 16,251</b>    | <b>\$ 86,513</b> |

|                     | Nine Months Ended<br>March 31, 2011 |                     |              | Nine Months Ended<br>March 31, 2010 |                     |              |
|---------------------|-------------------------------------|---------------------|--------------|-------------------------------------|---------------------|--------------|
|                     | <u>Bank</u>                         | <u>Credit Union</u> | <u>Total</u> | <u>Bank</u>                         | <u>Credit Union</u> | <u>Total</u> |
| <b>REVENUE</b>      |                                     |                     |              |                                     |                     |              |
| License             | \$ 26,826                           | \$ 11,118           | \$ 37,944    | \$ 29,476                           | \$ 10,330           | \$ 39,806    |
| Support and service | 493,965                             | 139,097             | 633,062      | 427,426                             | 94,733              | 522,159      |
| Hardware            | 33,596                              | 13,040              | 46,636       | 35,359                              | 11,417              | 46,776       |

|                             |                   |                  |                   |            |           |            |
|-----------------------------|-------------------|------------------|-------------------|------------|-----------|------------|
| <b>Total</b>                | <b>554,387</b>    | <b>163,255</b>   | <b>717,642</b>    | 492,261    | 116,480   | 608,741    |
| <b>COST OF SALES</b>        |                   |                  |                   |            |           |            |
| Cost of license             | <b>3,544</b>      | <b>858</b>       | <b>4,402</b>      | 3,204      | 811       | 4,015      |
| Cost of support and service | <b>293,529</b>    | <b>90,144</b>    | <b>383,673</b>    | 257,066    | 63,437    | 320,503    |
| Cost of hardware            | <b>24,309</b>     | <b>10,116</b>    | <b>34,425</b>     | 25,795     | 8,444     | 34,239     |
| <b>Total</b>                | <b>321,382</b>    | <b>101,118</b>   | <b>422,500</b>    | 286,065    | 72,692    | 358,757    |
| <b>GROSS PROFIT</b>         | <b>\$ 233,005</b> | <b>\$ 62,137</b> | <b>\$ 295,142</b> | \$ 206,196 | \$ 43,788 | \$ 249,984 |

|                                    | <b>March 31,<br/><u>2011</u></b> | <b>June 30,<br/><u>2010</u></b> |
|------------------------------------|----------------------------------|---------------------------------|
| <b>Property and equipment, net</b> |                                  |                                 |
| Bank systems and services          | <b>\$ 236,106</b>                | \$ 241,596                      |
| Credit Union systems and services  | <b>34,018</b>                    | 33,074                          |
| <b>Total</b>                       | <b>\$ 270,124</b>                | \$ 274,670                      |
| <b>Intangible assets, net</b>      |                                  |                                 |
| Bank systems and services          | <b>\$ 596,381</b>                | \$ 611,245                      |
| Credit Union systems and services  | <b>242,998</b>                   | 245,065                         |
| <b>Total</b>                       | <b>\$ 839,379</b>                | \$ 856,310                      |

NOTE 10.

#### SUBSEQUENT EVENTS

On May 6, 2011, the Company's Board of Directors declared a cash dividend of \$0.105 per share on its common stock, payable on June 2, 2011 to shareholders of record on May 20, 2011.

On April 8 2011, the Company reduced the outstanding balance on its primary revolving credit facility to \$80,000 via a \$10,000 repayment.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and the accompanying notes to the condensed consolidated financial statements included in this Form 10-Q.

### RESULTS OF OPERATIONS

#### Background and Overview

We provide integrated computer systems for both in-house installations 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. For in-house installations we also perform data conversion and software implementation services regarding 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 eight data centers in six physical locations and eight image-enabled item-processing centers located throughout the United States.

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 have decreased, resulting 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 been subject to regulatory action. We believe that the number of regulatory actions will continue to decline through the remainder of calendar 2011, absent a significant downturn in the economy. The increase in bank failures and forced consolidations has been, to some extent, offset 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 selected. Consolidations and acquisitions also impact our financial results in the short-term due to early contract 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.

We remain cautiously optimistic, however, 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 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 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.

A detailed discussion of the major components of the results of operations for the three and nine-month periods ended March 31, 2011 follows. All amounts are in thousands and discussions compare the current three and nine-month periods ended March 31, 2011, to the prior year three and nine-month periods ended March 31, 2010, respectively.

## REVENUE

| License Revenue             | Three Months Ended              |             | %<br>Change | Nine Months Ended               |             | %<br>Change |
|-----------------------------|---------------------------------|-------------|-------------|---------------------------------|-------------|-------------|
|                             | <u>March 31,</u><br><u>2011</u> | <u>2010</u> |             | <u>March 31,</u><br><u>2011</u> | <u>2010</u> |             |
| License                     | \$ 13,025                       | \$ 16,391   | -21%        | \$ 37,944                       | \$ 39,806   | -5%         |
| Percentage of total revenue | 5%                              | 8%          |             | 5%                              | 7%          |             |

License revenue represents the 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 quarter decrease is related to decreases in our core software license revenue, particularly for Silverlake® (our flagship core software solution for larger banks), for which the average deal size was smaller compared to a year ago. We believe our customers are continuing to postpone 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. The quarter decrease has been partly offset by increased revenue from our Alogent® products (our suite of deposit and image capture products targeted at large financial institutions).

The year-to-date decrease also relates to the decreases in our core software license revenue, partially offset by increased revenue from our Alogent® products and an additional quarter of revenues from GFSI (acquired in the second quarter of fiscal 2010).

| <b>Support and Service Revenue</b> | Three Months Ended              |                            | <b>%<br/>Change</b> | Nine Months Ended               |                 | <b>%<br/>Change</b> |
|------------------------------------|---------------------------------|----------------------------|---------------------|---------------------------------|-----------------|---------------------|
|                                    | <u>March 31,</u><br><u>2011</u> | <u>2010</u>                |                     | <u>March 31,</u><br><u>2011</u> | <u>2010</u>     |                     |
| Support and service                | <b>\$ 210,074</b>               | \$ 182,090                 | <b>15%</b>          | <b>\$ 633,062</b>               | \$ 522,159      | <b>21%</b>          |
| Percentage of total revenue        | <b>87%</b>                      | 84%                        |                     | <b>88%</b>                      | 86%             |                     |
|                                    |                                 |                            |                     |                                 |                 |                     |
|                                    |                                 | <u>Qtr over Qtr Change</u> |                     | <u>Year over Year Change</u>    |                 |                     |
|                                    |                                 | <u>\$ Change</u>           | <u>% Change</u>     | <u>\$ Change</u>                | <u>% Change</u> |                     |
| In-House Support & Other Services  | \$ 1,739                        |                            | 2%                  | \$ 13,008                       |                 | 6%                  |
| Electronic Payment Services        | 20,598                          |                            | 35%                 | 76,946                          |                 | 50%                 |
| Outsourcing Services               | 3,823                           |                            | 10%                 | 13,247                          |                 | 12%                 |
| Implementation Services            | 1,824                           |                            | 13%                 | 7,702                           |                 | 17%                 |
| <b>Total Increase</b>              | <b>\$ 27,984</b>                |                            |                     | <b>\$ 110,903</b>               |                 |                     |

Support and services fees 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 for both the current quarter and year over year.

In-house support revenue increased for the quarter and year-to-date as the number of supported in-house customers has grown and annual maintenance fees have increased as our customers' assets grow. In addition, the acquisition of GFSI contributed a further \$5,648 year-to-date to in-house support revenue compared to a year ago.

Electronic payment services continued to experience the largest percentage growth. The quarterly revenue increase is partly attributable to the acquisitions of iPay which added \$12,948 of acquisition related growth. Combined, the acquisitions of GFSI, PTSI and iPay added \$59,643 year-to-date. Revenue growth within electronic payment services, excluding the effect of the acquisitions, continues to be strong with a quarterly increase of 13% over the prior fiscal year's third quarter and a year-to-date increase of 11% over the first nine months of fiscal 2010.

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. Revenues from outsourcing services are typically under five-year service contracts therefore providing long-term, recurring revenues.

Implementation services revenue increased for the quarter due to increased installations of our Alogent® products. The increase for the nine months to March 31, 2011 is primarily related to the acquisition of GFSI (acquired in the second quarter of fiscal 2010) and increased revenue from merger conversions for existing customers that acquired other financial institutions.

| <b>Hardware Revenue</b>     | Three Months Ended              |             | <b>%<br/>Change</b> | Nine Months Ended               |             | <b>%<br/>Change</b> |
|-----------------------------|---------------------------------|-------------|---------------------|---------------------------------|-------------|---------------------|
|                             | <u>March 31,</u><br><u>2011</u> | <u>2010</u> |                     | <u>March 31,</u><br><u>2011</u> | <u>2010</u> |                     |
| Hardware                    | \$ 17,086                       | \$ 17,068   | 0%                  | \$ 46,636                       | \$ 46,776   | 0%                  |
| Percentage of total revenue | 7%                              | 8%          |                     | 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 increased slightly in the quarter but decreased slightly year-to-date, due to a decrease in the number of hardware systems and components delivered. Despite the slight increase in the current quarter, we expect the overall decreasing trend in hardware sales to continue due to the trend towards outsourcing contracts, which typically do not include hardware.

## BACKLOG

Our backlog increased 3% at March 31, 2011 to \$335,500 (\$76,900 in-house and \$258,600 outsourcing) from \$325,100 (\$77,900 in-house and \$247,200 outsourcing) at March 31, 2010. The current quarter backlog decreased 3% from December 31, 2010, when backlog was \$342,700 (\$78,700 in-house and \$264,000 outsourcing).

## 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 processing centers providing services for our outsourced customers, electronic payment 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.

| <b>Cost of Sales and Gross Profit</b>   | Three Months Ended<br><u>March 31,</u> |             | <u>%</u>      | Nine Months Ended<br><u>March 31,</u> |             | <u>%</u>      |
|-----------------------------------------|----------------------------------------|-------------|---------------|---------------------------------------|-------------|---------------|
|                                         | <u>2011</u>                            | <u>2010</u> | <u>Change</u> | <u>2011</u>                           | <u>2010</u> | <u>Change</u> |
| <b>Cost of License</b>                  | \$ 1,145                               | \$ 1,804    | -37%          | \$ 4,402                              | \$ 4,015    | 10%           |
| Percentage of total revenue             | 0%                                     | 1%          |               | 1%                                    | 1%          |               |
| <b>License Gross Profit</b>             | \$ 11,880                              | \$ 14,587   | -19%          | \$ 33,542                             | \$ 35,791   | -6%           |
| Gross Profit Margin                     | 91%                                    | 89%         |               | 88%                                   | 90%         |               |
| <b>Cost of support and service</b>      | \$ 131,010                             | \$ 114,667  | 14%           | \$ 383,673                            | \$ 320,503  | 20%           |
| Percentage of total revenue             | 55%                                    | 53%         |               | 53%                                   | 53%         |               |
| <b>Support and Service Gross Profit</b> | \$ 79,064                              | \$ 67,423   | 17%           | \$ 249,389                            | \$ 201,656  | 24%           |
| Gross Profit Margin                     | 38%                                    | 37%         |               | 39%                                   | 39%         |               |
| <b>Cost of hardware</b>                 | \$ 12,740                              | \$ 12,565   | 1%            | \$ 34,425                             | \$ 34,239   | 1%            |
| Percentage of total revenue             | 5%                                     | 6%          |               | 5%                                    | 6%          |               |
| <b>Hardware Gross Profit</b>            | \$ 4,346                               | \$ 4,503    | -3%           | \$ 12,211                             | \$ 12,537   | -3%           |
| Gross Profit Margin                     | 25%                                    | 26%         |               | 26%                                   | 27%         |               |
| <b>TOTAL COST OF SALES</b>              | \$ 144,895                             | \$ 129,036  | 12%           | \$ 422,500                            | \$ 358,757  | 18%           |
| Percentage of total revenue             | 60%                                    | 60%         |               | 59%                                   | 59%         |               |
| <b>TOTAL GROSS PROFIT</b>               | \$ 95,290                              | \$ 86,513   | 10%           | \$ 295,142                            | \$ 249,984  | 18%           |
| Gross Profit Margin                     | 40%                                    | 40%         |               | 41%                                   | 41%         |               |

Cost of license depends greatly on third party reseller agreement software vendor costs. During the current quarter sales of these third party vendor licenses decreased leading to lower related costs. For the year-to-date, cost of license has increased as complementary software sales that have associated third party vendor costs have increased.

Cost of support and service increased for the quarter commensurate with the increase in support and services revenue, with slightly improved gross profit margins. Support and service gross profits have increased over the prior year as a result of the acquisitions of GFSI and iPay, which combined to contribute gross profit of \$11,839 for the current quarter and \$35,448 year-to-date.

Changes in cost of hardware are consistent with hardware revenue for the current quarter and year-to-date.

## OPERATING EXPENSES

| Selling and Marketing       | Three Months Ended |           | %      | Nine Months Ended |           | %      |
|-----------------------------|--------------------|-----------|--------|-------------------|-----------|--------|
|                             | March 31,          |           | Change | March 31,         |           | Change |
|                             | 2011               | 2010      |        | 2011              | 2010      |        |
| Selling and marketing       | \$ 16,929          | \$ 16,765 | 1%     | \$ 50,270         | \$ 43,756 | 15%    |
| Percentage of total revenue | 7%                 | 8%        |        | 7%                | 7%        |        |

Selling and marketing expenses consist of dedicated sales forces, inside sales teams, technical sales support teams and channel partners that 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.

Selling and marketing expenses for the three months ended March 31 are consistent with the same period last year. Selling and marketing expenses have decreased slightly as a percentage of total revenue for the quarter. For the nine-month periods ended March 31, 2011, selling and marketing expenses increased mainly due to increasing personnel costs, including commission expenses due to the additional employees acquired through the fiscal 2010 acquisitions. Selling and marketing expenses have remained consistent as a percentage of total revenue for the year-to-date.

| Research and Development    | Three Months Ended |           | %      | Nine Months Ended |           | %      |
|-----------------------------|--------------------|-----------|--------|-------------------|-----------|--------|
|                             | March 31,          |           | Change | March 31,         |           | Change |
|                             | 2011               | 2010      |        | 2011              | 2010      |        |
| Research and development    | \$ 15,716          | \$ 14,001 | 12%    | \$ 46,943         | \$ 36,488 | 29%    |
| Percentage of total revenue | 7%                 | 6%        |        | 7%                | 6%        |        |

We devote significant effort and expense to develop new software, to service products and to continually upgrade and enhance our existing offerings. Typically, we upgrade all of our 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 three and nine-month periods ended March 31, 2011 primarily due to the acquisitions in fiscal 2010 which increased personnel, consultant, and independent contractor costs compared to the same period a year ago. This also caused the increase from 6% in fiscal 2010 to 7% of total revenue in fiscal 2011.

| General and Administrative  | Three Months Ended |           | %      | Nine Months Ended |           | %      |
|-----------------------------|--------------------|-----------|--------|-------------------|-----------|--------|
|                             | March 31,          |           | Change | March 31,         |           | Change |
|                             | 2011               | 2010      |        | 2011              | 2010      |        |
| General and administrative  | \$ 12,142          | \$ 12,088 | 0%     | \$ 39,662         | \$ 36,781 | 8%     |
| Percentage of total revenue | 5%                 | 6%        |        | 6%                | 6%        |        |

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs. General and administrative expenses for the quarter remained consistent with the same period last year, and costs reduced slightly to 5% of total revenue compared to 6% for the third quarter last year. General and administrative expense for the nine-month period increased from last year due mainly to increased personnel costs relating to the acquisitions in fiscal 2010 and increased depreciation, while remaining consistent at 6% as a percentage of total revenue with the same period last year.

**INTEREST INCOME AND EXPENSE** Interest income for the three and nine-month periods ended March 31, 2011 fluctuated due to changes in invested balances and yields on invested balances. Interest expense increased \$1,524 for the quarter and \$6,670 for the year-to-date, due to increased borrowings on the revolving bank credit facility and term loan borrowings to fund the iPay acquisition, which as of March 31, 2011 totaled \$240,000 bearing interest at 2.31%, compared to \$60,000 balance as of March 31, 2010 bearing interest at a weighted-average rate of 0.66%.

Interest expense is expected to reduce slightly in the final quarter of the fiscal year due to the debt repayment discussed in Note 10 to the condensed consolidated financial statements.

**PROVISION FOR INCOME TAXES** The provision for income taxes was \$15,773 and \$50,391 for the three and nine-month periods ended March 31, 2011 compared with \$11,847 and \$44,708 for the same periods last year. As of the end of the current quarter, the rate of income taxes is estimated at 32.3 % of income before income taxes compared to 27.2% as reported for the same quarter in fiscal 2010. The percentage increase was primarily due to one-time benefits provided by the Domestic Production Activities Deduction (IRC Section 199), recognized during the same quarter in fiscal 2010.

**NET INCOME** Net Income increased 4.6% for the three months ended March 31, 2011. For the third quarter of fiscal 2011, it was \$33,081 or \$0.38 per diluted share compared to \$31,635, or \$0.37 per diluted share in the same period last year. Net Income also increased for the nine-month period ended March 31, 2011 to \$100,897 or \$1.17 per diluted share compared to \$87,886 or \$1.03 per diluted share, for the same nine month period last year.

## BUSINESS SEGMENT DISCUSSION

The Company is a leading provider of integrated computer systems that perform data processing (available for in-house installations or outsourced services) 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.

### Bank Systems and Services

|                     | Three Months Ended<br>March 31, |             | %<br>Change | Nine Months Ended<br>March 31, |             | %<br>Change |
|---------------------|---------------------------------|-------------|-------------|--------------------------------|-------------|-------------|
|                     | <u>2011</u>                     | <u>2010</u> |             | <u>2011</u>                    | <u>2010</u> |             |
| Revenue             | \$ 183,490                      | \$170,818   | 7%          | \$ 554,387                     | \$ 492,261  | 13%         |
| Gross Profit        | \$ 73,842                       | \$ 70,262   | 5%          | \$ 233,005                     | \$ 206,196  | 13%         |
| Gross Profit Margin | 40%                             | 41%         |             | 42%                            | 42%         |             |

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Revenue in the Bank Systems and Services segment increased quarterly through 12% growth in support and service revenue (\$17,344), partially offset by a 30% decline in license revenue (\$3,633) compared to the same period a year ago. Year-to-date support and service revenue increased 16%, which was partially offset by a decrease of 9% in license revenue and a 5% decrease in hardware revenues. Quarter and year-to-date gross profit margins have remained consistent.

### Credit Union Systems and Services

|                     | Three Months Ended<br>March 31, |             | %<br>Change | Nine Months Ended<br>March 31, |             | %<br>Change |
|---------------------|---------------------------------|-------------|-------------|--------------------------------|-------------|-------------|
|                     | <u>2011</u>                     | <u>2010</u> |             | <u>2011</u>                    | <u>2010</u> |             |
| Revenue             | \$ 56,695                       | \$ 44,731   | 27%         | \$ 163,255                     | \$ 116,480  | 40%         |
| Gross Profit        | \$ 21,448                       | \$ 16,251   | 32%         | \$ 62,137                      | \$ 43,788   | 42%         |
| Gross Profit Margin | 38%                             | 36%         |             | 38%                            | 38%         |             |

Revenue in the Credit Union System and Services segment increased from last year for all revenue components. Electronic payment services had the largest dollar and percentage increase from last year, primarily due to the impact of the acquisition of PTSI and iPay. Combined, these acquisitions contributed \$5,827 to electronic payment services revenue during the current quarter, and added \$34,191 of acquisition related growth for the year-to-date. Gross profit margins for the Credit Union Systems and Services segment increased for the quarter as a result of the acquisition of iPay which is contributing strong gross profit margins and remained consistent for the year-to-date, being the effect of increased iPay gross profit margins for electronic payment services, offset by slightly lower margins being achieved by PTSI.

## FINANCIAL CONDITION

### Liquidity

The Company's cash and cash equivalents was \$54,383 at March 31, 2011, decreasing from \$125,518 at June 30, 2010, and increasing from \$35,779 at March 31, 2010. The decrease in the cash balance from June 30, 2010 is primarily due to the repayment of long and short term debt. The cash balance at March 31, 2010 was lower than the balance at March 31, 2011 primarily due to the cash outflows for the acquisitions of GFSI and PTSI in fiscal 2010.

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

|                                        | Nine months ended<br>March 31, |             |
|----------------------------------------|--------------------------------|-------------|
|                                        | <u>2011</u>                    | <u>2010</u> |
| Net income                             | \$ 100,897                     | \$ 87,886   |
| Non-cash expenses                      | 76,505                         | 64,413      |
| Change in receivables                  | 92,921                         | 87,281      |
| Change in deferred revenue             | (138,010)                      | (137,402)   |
| Change in other assets and liabilities | (17,155)                       | (10,347)    |

|                                           |                   |           |
|-------------------------------------------|-------------------|-----------|
| Net cash provided by operating activities | <b>\$ 115,158</b> | \$ 91,831 |
|-------------------------------------------|-------------------|-----------|

Cash provided by operating activities for the fiscal year to date increased 25% compared to last year. Cash from operations is primarily used to repay debt, pay dividends and fund acquisitions and other capital expenditures. The increase compared to last year reflects incremental earnings provided by the GFSI, PTSI and iPay acquisitions in fiscal 2010 as well as continued strong organic growth.

Cash used in investing activities for the current year totaled \$43,494. The largest use of cash was capital expenditures on facilities and equipment of \$24,216, including computer equipment purchases and final costs relating to the construction of our new Branson, Missouri and Springfield, Missouri facilities. Other major uses of cash included \$19,279 for the development of software. In the first nine months of fiscal 2010, cash used in investing activities totaled \$181,421. The largest use of cash was payments for the acquisitions of GFSI and PTSI, totaling \$125,864. Capital expenditures for facilities and equipment, which included the majority of the costs related to the construction of our new Springfield, Missouri facility, totaled \$36,499, with other major uses of cash being \$19,155 for the development of software.

Financing activities used cash of \$142,799 during the current year. There were net cash outflows to repay long and short term borrowings on our credit facilities of \$136,522 and \$25,324 was used to fund dividends paid to stockholders. Cash used was partially offset by \$19,047 net proceeds from the issuance of stock for stock options exercised, excess tax benefits from stock-based compensation and proceeds from the sale of common stock (through the employee stock purchase plan). Net cash provided by financing activities in the first nine months of last year, was \$7,118 and includes \$4,010 net borrowings on our lines of credit, and \$25,460 of net proceeds from the issuance of stock for stock options exercised, excess tax benefits from stock-based compensation and proceeds from the sale of common stock. Cash inflows were partially offset by \$22,352 in dividend payments to shareholders.

U.S. financial markets and many of the largest U.S. financial institutions have been shaken by negative developments over the last two and a half 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.

### **Capital Requirements and Resources**

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$24,216 and \$36,499 for the nine-month periods ended March 31, 2011 and 2010, respectively, were made primarily for additional equipment and the improvement of existing facilities. These additions were funded from cash generated by operations. Total consolidated capital expenditures for the Company are not expected to exceed \$35,000 for fiscal year 2011.

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, 2010 and March 31, 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 March 31, 2011 is \$309,585. There were no repurchases of treasury stock during the nine months ended March 31, 2011.

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

#### *Revolving credit facility*

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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 March 31, 2011, the outstanding revolving loan balance was \$90,000, which was bearing interest at a rate of 2.31%.

Subsequent to the period end, the Company reduced the outstanding balance on its primary revolving credit facility to \$80,000 via a \$10,000 repayment made on April 8, 2011.

### *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 March 31, 2011, the outstanding balance was bearing interest at a rate of 2.31%. Of the \$150,000 outstanding, \$16,875 will be maturing in 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 March 31, 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. Long term capital lease obligations were entered into during the year of which \$2,347 remains outstanding at March 31, 2011 and \$1,460 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling \$1,105 at March 31, 2011.

### *Other lines of credit*

The Company renewed an unsecured bank credit line on April 29, 2010 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (2.25% at March 31, 2011). The credit line was renewed through April 29, 2012. At March 31, 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 March 31, 2011). The credit line expires March 7, 2012 and is secured by \$1,000 of investments. At March 31, 2011, no amount was outstanding.

## **Critical Accounting Policies**

The Company regularly reviews its selection and application of significant accounting policies and related financial disclosures. The application of these accounting policies requires that management make estimates and judgments. The estimates that affect the application of our most critical accounting policies and require our most significant judgments are outlined in Management's Discussion and Analysis of Financial Condition and Results of Operations. Critical Accounting Policies contained in our annual report on Form 10-K for the year ended June 30, 2010.

## **Forward Looking Statements**

The Management's Discussion and Analysis of Results of Operations and Financial Condition and other portions of this report contain forward-looking statements within the meaning of federal securities laws. Actual results are subject to risks and uncertainties, including both those specific to the Company and those specific to the industry, which could cause results to differ materially from those contemplated. The risks and uncertainties include, but are not limited to, the matters detailed at Risk Factors in its Annual Report on Form 10-K for the fiscal year ended June 30, 2010. Undue reliance should not be placed on the forward-looking statements. The Company does not undertake any obligation to publicly update any forward-looking statements.

## **CONCLUSION**

Despite continuing challenges in our market, the Company's results of operations and its financial position continue to be solid, with increased gross profit and net income for the three and nine-month periods ended March 31, 2011, compared to the same periods a year ago. We continue to be cautiously optimistic as we see increases over the prior year in our recurring revenue and our backlog of contracts for products and services yet to be delivered. Our overall results reflect the continuing attitude of cooperation and commitment by each employee, management's ongoing cost control efforts and our commitment to continue delivering top quality products and superior services to all of our customers in the markets we serve. We believe that we are well positioned to address current challenges and opportunities as well as those which will arise as the economic recovery strengthens.

## **ITEM 3.**

### **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 March 31, 2011, a 1% increase in our borrowing rate would increase annual interest expense in fiscal 2011 by less than \$2,400.

## **ITEM 4.**

### **CONTROLS AND PROCEDURES**

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

controls and procedures designed to ensure that information that is required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 6.**

#### **EXHIBITS**

31.1

Certification of the Chief Executive Officer dated May 6, 2011.

31.2

Certification of the Chief Financial Officer dated May 6, 2011.

32.1

Written Statement of the Chief Executive Officer dated May 6, 2011.

32.2

Written Statement of the Chief Financial Officer dated May 6, 2011.

101.INS\*

XBRL Instance Document

101.SCH\*

XBRL Taxonomy Extension Schema Document

101.CAL\*

XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\*

XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\*

XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*

XBRL Taxonomy Extension Presentation Linkbase Document

\* Furnished with this quarterly report on Form 10-Q are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at March 31, 2011 and June 30, 2010, (ii) the Condensed Consolidated Statements of Income for the three and nine-month periods ended March 31, 2011 and 2010, (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2011 and 2010, and (iv) Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

JACK HENRY & ASSOCIATES, INC.

Date: May 6, 2011

/s/ John F. Prim

John F. Prim

Chief Executive Officer and Director

Date: May 6, 2011

/s/ Kevin D. Williams

Kevin D. Williams

Chief Financial Officer and Treasurer