

HENRY JACK & ASSOCIATES INC  
Form 10-K  
August 28, 2009

---

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

FORM 10-K

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

Mark One)

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

For the fiscal year ended June 30, 2009

OR

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

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

Commission File Number 0-14112

JACK HENRY AND ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware

43-1128385

(State or other jurisdiction of incorporation or organization)

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

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

(Address of principal executive offices)

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

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

Title of each class

Name of each exchange on which  
registered

Common Stock (\$0.01 par value)

NASDAQ Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Smaller reporting Company

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

As of August 21, 2009, the Registrant had 84,195,045 shares of Common Stock outstanding (\$0.01 par value). On December 31, 2008, the aggregate market value of the Common Stock held by persons other than those who may be deemed affiliates of Registrant was \$1,475,685,132 (based on the average of the reported high and low sales prices on NASDAQ on December 31, 2008).

---

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Notice of Annual Meeting of Stockholders and Proxy Statement for its 2009 Annual Meeting of Stockholders (the "Proxy Statement"), as described in the footnotes to the Table of Contents below, are incorporated by reference into Part II, Item 5 and into Part III of this Report.

#### TABLE OF CONTENTS

		Page Reference
PART I		
ITEM 1.	BUSINESS	4
ITEM 1A.	RISK FACTORS	16
ITEM 1B.	UNRESOLVED STAFF COMMENTS	19
ITEM 2.	PROPERTIES	19
ITEM 3.	LEGAL PROCEEDINGS	19
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	19
PART II		
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	20
ITEM 6.	SELECTED FINANCIAL DATA	22
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	22
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	38
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	39
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	66
ITEM 9A.	CONTROLS AND PROCEDURES	66
ITEM 9B.	OTHER INFORMATION	66
PART III		
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	67
ITEM 11.	EXECUTIVE COMPENSATION	67
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	67
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	67

ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	67
PART IV		
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	67

---

## PART I

### Item 1. Business

Jack Henry & Associates, Inc. ("JHA" or the "Company") was founded in 1976 as a provider of core information processing solutions for community banks. Today, the Company's extensive array of products and services includes processing transactions, automating business processes, and managing information for more than 9,800 financial institutions and diverse corporate entities.

JHA provides its products and services through three marketed brands.

- **Jack Henry Banking**  
is a leading provider of integrated data processing systems to approximately 1,500 banks ranging from de novo or start-up institutions to mid-tier banks with assets of up to \$15 billion. Our banking solutions support both in-house and outsourced operating environments with three functionally distinct core processing platforms and more than 100 integrated complementary solutions.
- **Symitar** is a leading provider of core data processing solutions for credit unions of all sizes, with more than 700 credit union customers. Symitar markets two functionally distinct core processing platforms and more than 50 integrated complementary solutions that support both in-house and outsourced operating environments.
- **ProfitStars**

is a leading provider of highly specialized products and services to financial institutions that are primarily not core customers of the Company. These specialized solutions can be used with a wide variety of information technology platforms and operating environments. ProfitStars' offers solutions for generating revenue and growth opportunities, increasing security and mitigating operational risks, and controlling operating costs. ProfitStars' products and services enhance the performance of financial services organizations of all asset sizes and charters, and diverse corporate entities with more than 7,500 domestic and international customers outside of our core customer base.

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

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

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

We have three primary revenue sources:

- Software license fees paid by customers implementing our software solutions in-house;
- Ongoing outsourcing fees paid by customers that outsource their information processing to us, recurring transaction processing fees, annual maintenance and support fees, and service fees that include software implementation; and
- Hardware sales that include all non-software products that we re-market in order to support our software systems.

JHA's gross revenue has grown from \$535.9 million in fiscal 2005 to \$745.6 million in fiscal 2009, representing a compound annual growth rate during this five-year period of 7

percent. Net income from continuing operations has grown from \$75.5 million to \$103.1 million during this same five-year period, representing a compound annual growth rate of 6 percent. Information regarding the classification of our business into separate segments serving the banking and credit union industries is set forth in Note 14 to the Consolidated Financial Statements (see Item 8).

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

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

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

#### Industry Background

Jack Henry Banking primarily serves commercial banks and savings institutions with less than \$30.0 billion in assets. According to the Federal Deposit Insurance Corporation ("FDIC"), there were more than 8,200 commercial banks and savings institutions in this asset range as of December 31, 2008. Jack Henry Banking currently supports more than 1,500 of these banks with its core information processing platforms and complementary products and services.

Symitar serves credit unions of all asset sizes. According to the Credit Union National Association ("CUNA"), there were approximately 8,100 domestic credit unions as of December 31, 2008. Symitar currently supports more than 700 of these credit unions with core information processing platforms and complementary products and services.

ProfitStars serves financial services organizations of all asset sizes and charters. ProfitStars currently supports approximately 7,500 institutions with specialized solutions for generating additional revenue and growth, increasing security, mitigating operational risks, and controlling operating costs.

The FDIC reports the number of commercial banks and savings institutions declined 10 percent from the beginning of calendar year 2004 to the end of calendar year 2008. Although the number of banks declined at a 2 percent compound annual rate during this period, aggregate assets increased at a

compound annual rate of 10 percent and totaled \$12.3 trillion as of December 31, 2008. Comparing calendar years 2008 to 2007, new bank charters decreased 46 percent and mergers decreased 9 percent.

CUNA reports the number of credit unions declined 17 percent from the beginning of calendar year 2004 to the end of calendar year 2008. Although the number of credit unions declined at a 4 percent compound annual rate during this period, aggregate assets increased at a

compound annual rate of 6 percent and totaled \$832.5 billion as of December 31, 2008.

According to *Automation in Banking 2009*, approximately 51 percent of all financial institutions currently utilize in-house core information processing solutions and approximately 49 percent outsource information processing to third-party providers. According to the *2009 Credit Union Technology Survey* published by Callahan & Associates, approximately 71 percent of all credit unions utilize in-house core information processing solutions and approximately 28 percent outsource information processing to third-party providers.

Community and mid-tier banks and credit unions are important in the communities and to the consumers they serve. Bank customers and credit union members rely on these institutions to provide personalized, relationship-based service and competitive financial products and services available through the customer's delivery channel of choice. Institutions are realizing that attracting and retaining customers/members in today's highly competitive financial industry and realizing near and long term performance goals are often technology-dependent. Financial institutions must implement technological solutions that enable them to:

- Maximize performance with accessible, accurate, and timely decision support and business intelligence information;
- Offer the high-demand products and services needed to aggressively and successfully compete with traditional competitors and the non-traditional competitors created by convergence within the financial services industry;
- Enhance the customer/member experience at varied points of contact;
- Expand existing customer/member relationships and strengthen exit barriers by cross selling additional products and services;
- Capitalize on new revenue and deposit growth opportunities;
- Increase operating efficiencies and reduce operating costs;
- Implement an e-commerce strategy that provides the convenience-driven services required in today's financial services industry;
- Protect mission-critical information assets and operational infrastructures;
- Protect customers/members from fraud and the related financial losses;
- Maximize the day-to-day use of technology and the return on technology investments; and
- Ensure full regulatory compliance.

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

#### Mission Statement

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

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

#### Business Strategy

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

- Providing commercial banks and credit unions with core software systems that provide excellent functionality, and support in-house and outsourced operating environments with identical functionality.
- Expanding each core customer relationship by cross-selling complementary products and services that enhance the functionality provided by our core information processing systems.
- Maintaining a company-wide commitment to customer service that consistently exceeds our customers' expectations and generates rewarding levels of customer retention.
- Capitalizing on our focused diversification acquisition strategy.

#### Focused Diversification Acquisition Strategy

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

Historically, our acquisition strategy focused on companies that:

- Expanded our base of core financial institution customers,
- Expanded our suite of complementary products and services that were cross sold almost exclusively to existing customers,
- Enabled our entry into adjacent markets within financial services industry; and/or
- Provided additional outsourcing capabilities/opportunities.

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

- Sold to existing core customers;
- Sold outside JHA's base of core bank and credit union customers to financial services organizations of all charters and asset sizes;
- Selectively sold outside the financial services industry to diverse corporate entities; and
- Selectively sold internationally.

Since our focused diversification strategy was adopted, JHA has completed 16 acquisitions that support it and assembled three distinct product suites that enable users to:

- Generate additional revenue and growth opportunities,
- Increase security and mitigate operational risks, and /or
- Control operating costs.

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

Most of the acquired companies and their respective products and services have been consolidated into our ProfitStars brand. Today, ProfitStars' products and services collectively represent more than 7,500 domestic and international implementations outside of our core solution customer base.

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

Fiscal

Year	Company or Product Name	Products and Services
2008	AudioTel	Check and document imaging and electronic banking
2008	Gladiator Technology	Information Technology Security Services
2007	Margin Maximizer	Loan and Deposit Pricing Solutions
2006	ProfitStar	Asset/Liability Management, Budgeting and Profitability
2005	Tangent Analytics	Business Intelligence Solutions
2005	Stratika	Profitability Solutions
2005	Synergy	Document Imaging
2005	TWS	Item Processing/ATM Deposit Processing
2005	Optinfo	Enterprise Exception Management Solution
2005	Verinex Technologies	Biometric Security Solutions
2005	Select Payment Processing	Payment Processing Solutions
2004	Regulatory Reporting Group	Electronic Regulatory Reporting Solutions
2004	e-ClassicSystems	ATM Channel Management System
2004	PowerPay .ach, .rck and .arc	Automated Clearing House Product Suite
2004	Yellow Hammer Software	Fraud Detection and Prevention Solution

Solutions

Our proprietary solutions are marketed through three business brands:

- **Jack Henry Banking**  
 supports commercial banks with information and transaction processing platforms that provide enterprise-wide automation. Its solutions encompass three functionally distinct core processing systems and more than 100 complementary solutions, including business intelligence and bank management, retail and business banking, Internet banking and electronic funds transfer ("EFT"), risk management and protection, and item and document imaging solutions. Our banking solutions have state-of-the-art functional capabilities, and we can provide the hardware required by each software system. Our banking solutions can be delivered in-house or through outsourced implementation, and are backed by a company-wide commitment to provide exceptional personal service. Jack Henry Banking is a recognized market leader, currently supporting more than 1,500 banks with its technology platforms.
- **Symitar**  
 supports credit unions of all sizes with information and transaction processing platforms that provide enterprise-wide automation. Its solutions include two functionally distinct core processing systems and more than 50 complementary solutions, including business intelligence and credit union management, member and member business services, Internet banking and EFT, risk management and protection, and item and document imaging solutions. Our credit union solutions also have state-of-the-art functional capabilities, and we can provide the hardware required by each software system. Our credit union solutions can be delivered in-house or through outsourced implementation, and are also backed by our company-wide commitment to provide exceptional personal service.
- **ProfitStars**

is a leading provider of specialized products and services assembled through our focused diversification acquisition strategy. These solutions are compatible with a wide variety of information technology platforms and operating environments, and include proven solutions for generating additional revenue and growth, increasing security and mitigating operational risks, and/or controlling operating costs. ProfitStars' products and services are enhancing the performance of financial services organizations of all asset sizes and charters, and diverse corporate entities with more than 7,500 domestic and international implementations outside of our core software customer base. These distinct products and services can be implemented individually or as solution suites to address specific business problems and enable effective responses to dynamic industry trends.



Products and services that meet users' functional requirements are expected in the competitive markets that we serve. We will continue to develop and maintain functionally robust, integrated solutions that are supported with high service levels; regularly enhanced using an interactive customer enhancement process; compliant with relevant regulations; updated with proven advances in technology; and consistent with JHA's reputation as a premium product and service provider.

### Core Software Systems

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

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

Jack Henry Banking's three core banking platforms are:

- **SilverLake<sup>®</sup>**  
is a robust IBM<sup>®</sup> System i<sup>™</sup>-based system primarily designed for commercial-focused banks with assets ranging from \$500 million to \$30 billion. However, an increasing number of progressive smaller banks, including de novo, or recently chartered start-up banks, are now selecting SilverLake. This system has been implemented by more than 450 banks, and now automates approximately 6 percent of the domestic banks with assets less than \$30 billion.
- **CIF 20/20<sup>®</sup>**  
is a parameter-driven, easy-to-use system that now supports approximately 800 banks ranging from de novo institutions to those with assets exceeding \$2 billion. CIF 20/20 is the most widely used IBM System i-based core processing system in the community bank market.
- **Core Director<sup>®</sup>**

is a Windows<sup>®</sup>-based, client/server system that now supports more than 200 banks ranging from de novo institutions to those with assets exceeding \$1 billion. Core Director is a cost-efficient operating platform and provides intuitive point-and-click operation.

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

- **Episys<sup>®</sup>**  
is a robust IBM System p<sup>™</sup>-based system primarily designed for credit unions with more than \$50 million in assets. It has been implemented by over 500 credit unions and is ranked as the system implemented by more credit unions with assets exceeding \$25 million than any other alternative.
- **Cruise<sup>®</sup>**

is a Windows-based, client/server system designed primarily for credit unions with less than \$50 million in assets. It has been implemented by more than 150 credit unions, is cost-efficient, and provides intuitive point-and-click, drag-and-drop operation.

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

Customers can eliminate the significant up-front capital expenditures required by in-house installations and the responsibility for operating information and transaction processing infrastructures by outsourcing these functions to JHA. Our outsourcing services are provided through a national network of eight data centers in six physical locations and 12 image-enabled item processing centers. Customers electing to outsource their core processing typically sign

five-year contracts that include transaction-based processing fees and minimum guaranteed payments during the contract period.

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

#### Complementary Products and Services

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

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

Following are brief overviews of our key complementary products and services, which are categorized into functional product families.

#### Business Intelligence and Management Solutions

JHA's business intelligence and management solutions enable financial institutions to maximize performance and profits with accessible, accurate, and timely decision-support information. These products and services leverage the processes, technology, and expertise required to compile, report, and analyze customer, product, market, and business information.

##### Intelligence Warehouse/Intelligence Manager ("IW/IM")

- Business intelligence and analysis platform fully integrated with the SilverLake core banking systems
- Margin Maximizer* - Loan and deposit pricing solution
- Synapsys*<sup>®</sup> - Sales force automation solution
- Synapsys MCIF Wizard* - Marketing central information file and data mining solution
- Account Cross Sell - Automated direct sales solution
- Relationship Profitability Management ("RPM")* - Enterprise-wide profitability solution
- PROFITability*<sup>®</sup> - Organizational and product profitability system
- PROFITstar*<sup>®</sup> *ALM/Budgeting* - Asset/liability management and budgeting system
- Regulatory Reporting Solutions* - Electronic FDIC reporting systems
- TimeTrack Payroll System*<sup>™</sup> - Payroll processing solution

#### Retail Delivery Solutions

JHA's retail delivery solutions enable financial institutions to enhance their customer/member experience, capitalize on the opportunities to expand customer/member relationships at all points of contact, and successfully compete by offering high-demand products and services.

##### ArgoKeys<sup>®</sup> Branch Sales Automation

- Fully integrated platform solution
- StreamLine Platform Automation*<sup>®</sup> - Sales and service solution

*Vertex Teller Automation™* - Sales, service and transaction processing solution  
*OnTarget™ Deposit Platform* - Sales, service and transaction processing solution  
*OnTarget Lender* - Sales, service and transaction processing solution  
*OnTarget Teller Platform* - Sales, service and transaction processing solution  
*Member Business Services* - Business-driven deposit and loan services  
*Opening Act* - Online accounting opening solution for deposits and loans  
*Yellow Hammer™ BSA* - Web-based BSA compliance and risk mitigation solution  
*Yellow Hammer Fraud Detective™* - Fraud detection/prevention solution  
*Yellow Hammer Anti-Money Laundering* - Money laundering detection/prevention solution  
*Synapsys* - Sales force automation solution  
*Synapsys MCIF Wizard* - Marketing central information file and data mining solution  
*InTouch Voice Response™* - Full-service telephone banking solution  
*Bounce Protection®* - Overdraft privilege solution

## Business Banking Solutions

JHA's business banking solutions enable banks to enhance their commercial customers' experience, capitalize on the opportunities to expand commercial relationships at all points of contact, and successfully compete by offering high-demand commercial products and services.

### NetTeller Cash Management

*™* - Online commercial account management solution  
*NetTeller Bill Pay™* - Electronic bill payment solution  
*Check Collect Recovery Services* - Automated consumer check recovery  
*Remote Deposit Capture and Merchant Deposit Capture* - High and low volume remote deposit solutions  
*ACH/Check Conversion Services* - Electronic check conversion and processing service  
*Mutual Fund Sweep* - Off-balance sheet sweep solution  
*The Reserve* - On-balance sheet cash management sweep solution

### Electronic Funds Transfer (EFT) Solutions

JHA's EFT solutions provide a secure, reliable, end-to-end transaction processing platform for the high-demand EFT services required to compete in today's financial services industry.

### PassPort.pro

*™* - Online authorization and ATM driving solution  
*PassPort.atm™* - ATM processing and network switching service  
*PassPort.dc™* - Turnkey service for debit card programs  
*PassPort.asp™* - Outsourced ATM solution for in-house processing environments  
*PassPort Prepaid Value Cards* - Stored value card solution  
*ImageCenter ATM Deposit Management* - ATM deposits automation solution  
*Remote Deposit Capture and Merchant Deposit Capture* - High and low volume remote deposit solutions  
*ACH/Check Conversion Services* - Electronic check conversion and processing service  
*Yellow Hammer EFT Fraud Detective* - EFT fraud detection/prevention solution  
*ATM Manager Pro®* - ATM channel management solutions

### Internet Banking Solutions

JHA's Internet banking solutions support convenience-driven consumers with account access and the ability to initiate transactions and conduct self-directed research 24x7x365.

## NetTeller Online Banking

<sup>TM</sup> - Bank-branded Internet banking solution

*NetTeller Cash Management* - Online commercial account management solution

*NetTeller Bill Pay* - Electronic bill payment solution

*DirectLine<sup>TM</sup> OFX* - Internet banking solution for PC-based financial management systems

*Opening Act* - Online account opening solution for deposits and loans

*Multifactor Authentication* - Two-factor authentication solution for online transactions

*RSA<sup>®</sup> FraudAction<sup>SM</sup>* - Anti-phishing/anti-pharming risk mitigation solution

*Electronic Statements* - E-statement generation and delivery solution

*Electronic Statements - Interactive* - Electronic generation and delivery of customer communications

## Risk Management and Protection Solutions

JHA's risk management and protection solutions enable financial institutions to manage their assets, protect their customers/members from fraud and the related financial losses, prepare to conduct business in the event of a disaster, and fully comply with the related regulatory requirements.

## BioIdentify

<sup>®</sup> - Biometric identity management solution

*Centurion Disaster Recovery<sup>®</sup>* - Disaster recovery services for core and complementary solutions

*Centurion Business Continuity Planning* - Enterprise-wide business continuity consulting

*Yellow Hammer BSA* - Web-based BSA compliance and risk mitigation solution

*Yellow Hammer Fraud Detective* - Fraud detection/prevention solution

*Yellow Hammer Anti-Money Laundering* - Money laundering detection/prevention solution

*Yellow Hammer EFT Fraud Detective* - EFT fraud detection/prevention solution

*Multifactor Authentication* - Two-factor authentication solution for online transactions

*RSA<sup>®</sup> FraudAction<sup>SM</sup>* - Anti-phishing/anti-pharming risk mitigation solution

*Enterprise Exception Management Suite ("eEMS")* - Enterprise risk management solution

*Risk Manager* - Enterprise risk management solution

*AlertManager* - Check-related fraud detection/prevention system

*Gladiator CoreDEFENSE Network Security* - Managed network security services

*PROFITability* - Organizational and product profitability system \*

*PROFITstar ALM/Budgeting* - Asset/liability management and budgeting system \*

*Regulatory Reporting Solutions* - Electronic FDIC reporting systems

## Item and Document Imaging Solutions

JHA's imaging solutions revolutionize item processing by converting paper-based checks into digital checks and processing them electronically. Its document imaging and management solutions convert virtually any paper-based document into a digital document that can be electronically stored, immediately retrieved, and efficiently delivered.

## 4|sight<sup>TM</sup> Item Imaging

- Check imaging platform

*ImageCenter* - Check imaging platform

*Check 21 Solutions* - Check image clearing platform

*Synergy Enterprise Content Management (ECM)* - Modular ECM solution

*Enterprise Conversion Solutions* - Image and data conversion solutions

## Professional Services and Education

JHA's professional services and education enable financial institutions to proactively protect their mission-critical information assets and operational infrastructures, further streamline operations, maximize the day-to-day use of technology-based solutions, maximize their return on technology investments, and ensure related regulatory compliance.

### Know-It-All Education

- Initial and ongoing education

*Intellix Consulting* - Operational assessments

*Matrix Network Services*<sup>SM</sup> - LAN/WAN design, implementation and support services

*Centurion Disaster Recovery* - Disaster recovery services for core and complementary solutions

*Centurion Business Continuity Planning* - Enterprise-wide business continuity consulting

JHA regularly introduces new products and services based on demand for integrated complementary solutions from our existing core clients; and the growing demand among financial services organizations and corporate entities for specialized solutions capable of increasing revenue and growth opportunities, mitigating and controlling operational risks, and containing costs. The Company's Industry Research department solicits customer guidance on the business solutions they need, formally evaluates available solutions and competitive offerings, and manages the introduction of new product offerings. JHA's new complementary products and services are developed internally, acquired, or provided through strategic alliances.

## Hardware Systems

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

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

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

## Implementation and Training

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

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

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

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

### Support and Services

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

- Exacting service standards;
- Trained support staffs available 24 hours-a-day, 365 days-a-year;
- Assigned account managers;
- Sophisticated support tools, resources, and technology; and
- A best practices methodology developed and refined through the company-wide, day-to-day experience supporting more than 9,800 diverse clients.

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

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

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

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

### Regulatory Compliance

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

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

Internal audits of our systems, networks, operations, and applications are conducted and specialized outside firms are periodically engaged to perform testing and validation of our systems, processes, and security. Ensuring that confidential information remains private is a high priority, and JHA's initiatives to protect confidential information include regular third-party application reviews intended to better secure information access. Additional third-party reviews are performed throughout the organization, such as vulnerability tests, intrusion tests, and SAS 70 reviews. The FFIEC conducts annual reviews throughout the Company and issues reports that are reviewed by the JHA Audit Committee of the Board of Directors.

#### Research and Development

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

Research and development expenses for fiscal years 2009, 2008, and 2007 were \$42.9 million, \$43.3 million, and \$36.0 million, respectively. Capitalized software for fiscal years 2009, 2008 and 2007 was \$24.7 million, \$23.7 million, and \$20.7 million, respectively.

#### Sales and Marketing

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

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

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

existing clients and demonstrate new products and services.

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

JHA sells select products and services in the Caribbean, and now has approximately 40 installations in Europe and South America as a result of recent acquisitions. International sales account for less than one percent of JHA's total revenue in each of the three years ended June 30, 2009, 2008, and 2007.

### Backlog

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

Backlog as of June 30, 2009 totaled \$289.4 million, consisting of \$66.8 million for in-house products and services, and \$222.5 million for outsourcing services. Approximately \$163.9 million of the outsourcing services backlog as of June 30, 2009 is not expected to be realized during fiscal year 2010 due to the long-term nature of many outsourcing contracts. Backlog as of June 30, 2008 totaled \$257.4 million, and consisted of \$63.1 million for in-house products and services, and \$194.3 million for outsourcing services.

Our in-house backlog is subject to seasonal variations and can fluctuate quarterly. Our outsourcing backlog continues to experience growth based on new contracting activities and renewals of multi-year contracts, and although the appropriate portion of this revenue will be recognized during fiscal year 2010, the backlog is expected to remain relatively constant due to renewals of existing relationships and new contracting activities.

### Competition

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

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

### Intellectual Property, Patents, and Trademarks

Although we believe our success depends upon our technical expertise more than our proprietary rights, our future success and ability to compete depend in part upon our proprietary technology. We have registered or filed applications



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

### Government Regulation

The financial services industry is subject to extensive and complex federal and state regulation. All financial institutions are subject to substantial regulatory oversight and supervision. Our products and services must comply with the extensive and evolving regulatory requirements applicable to our customers, including

but not limited to those mandated by federal truth-in-lending and truth-in-savings rules, the Privacy of Consumer Financial Information regulations, usury laws, the Equal Credit Opportunity Act, the Fair Housing Act, the Electronic Funds Transfer Act, the Fair Credit Reporting Act, the Bank Secrecy Act, the USA Patriot Act, the Gramm-Leach-Bliley Act, and the Community Reinvestment Act. The compliance of JHA's products and services with these requirements depends on a variety of factors, including the particular functionality, the interactive design, the classification of customers, and the manner in which the customer utilizes the products and services. Our customers are contractually responsible for assessing and determining what is required of them under these regulations and then we assist them in meeting their regulatory needs through our products and services. It is not possible to predict the impact these regulations, any future amendments to these regulations or any newly implemented regulations could have on our business in the future.

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

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

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

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

### Employees

As of June 30, 2009 and 2008, JHA had 3,808 and 3,824 full-time employees, respectively. Of our full-time employees, approximately 638 are employed in the credit union segment of our business, with the remainder employed in the bank business segment or in general and administrative functions that serve both segments. Our employees are not covered by a collective bargaining agreement and there have been no labor-related work stoppages.

### Available Information

JHA's Website is easily accessible to the public at [www.jackhenry.com](http://www.jackhenry.com)

. The "For Investors" portion of the Website provides key corporate governance documents, the code of conduct, an archive of press releases, and other relevant Company information. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other filings and amendments thereto that are made with the U.S. Securities and Exchange Commission

(SEC) also are available free of charge on our Website as soon as reasonably practical after these reports have been filed with or furnished to the SEC.

#### Item 1A. Risk Factors

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

Our business may be adversely impacted by U.S. and global market and economic conditions.

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

##### Changes in the banking and credit union industry could reduce demand for our products

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

Competition or general economic conditions may result in decreased demand or require price reductions or other concessions to customers which could result in lower margins and reduce income.

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

If we fail to adapt our products and services to changes in technology, we could lose existing customers and be unable to attract new business.

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

Security problems could damage our reputation and business.

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

cessation of service to users, any of which could harm our business.

We may not be able to manage growth.

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

Our growth may be affected if we are unable to find or complete suitable acquisitions.

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

Acquisitions may be costly and difficult to integrate.

We have acquired a number of businesses in the last few years and will continue to explore acquisitions in the future. We may not be able to successfully integrate acquired companies. We may encounter problems with the integration of new businesses including: financial control and computer system compatibility; unanticipated costs; unanticipated quality or customer problems with acquired products or services; differing regulatory and industry standards; diversion of management's attention; adverse effects on existing business relationships with suppliers and customers; loss of key employees; and significant amortization expenses related to acquired assets. To finance future acquisitions, we may have to increase our borrowing or sell equity or debt securities to the public. Without additional acquisitions, we may not be able to grow and to develop new products and services as quickly as we have in the past to meet the competition. If we fail to integrate our acquisitions, our business, financial condition and results of operations could be materially and adversely affected. Failed acquisitions could also produce material and unpredictable impairment charges as we periodically review our acquired assets.

The loss of key employees could adversely affect our business.

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

Consolidation of financial institutions will continue to reduce the number of our customers and potential customers.

Our primary market consists of approximately 8,200 commercial and savings banks and 8,100 credit unions. The number of commercial banks and credit unions has decreased because of mergers and acquisitions over the last several decades and is expected to continue to decrease as more consolidation occurs.

The services we provide to our customers are subject to government regulation that could hinder the development of portions of our business or impose constraints on the way we conduct our operations.

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

The software we provide to our customers is also affected by government regulation.

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

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

As technology becomes less expensive and more advanced, purchase prices of hardware are declining and our revenues and profits from remarketing arrangements may decrease.

Computer hardware technology is rapidly developing. Hardware manufacturers are producing less expensive and more powerful equipment each year, and we expect this trend to continue into the future. As computer hardware becomes less expensive, revenues and profits derived from our hardware remarketing may decrease and become a smaller portion of our revenues and profits.

An operational failure in our outsourcing facilities could cause us to lose customers.

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

If our strategic relationship with IBM were terminated, it could have a negative impact on the continuing success of our business.

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

If others claim that we have infringed their intellectual property rights, we could be liable for significant damages.

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

Expansion of services to non-traditional customers could expose us to new risks.

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

Increases in service revenue as a percentage of total revenues may decrease overall margins.

We continue to experience a trend of a greater proportion of our products being sold as outsourcing services rather than in-house licenses. We realize lower margins on service revenues than on license revenues. Thus, if service revenue increases as a percentage of total revenue, our gross margins will be lower and our operating results may be impacted.

Failure to achieve favorable renewals of service contracts could negatively affect our outsourcing business.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own 154 acres located in Monett, Missouri on which we maintain nine office buildings, shipping & receiving and maintenance buildings. We also own buildings in Houston, Texas; Allen, Texas; Albuquerque, New Mexico; Birmingham, Alabama; Lenexa, Kansas; Angola, Indiana; Shawnee Mission, Kansas; Rogers, Arkansas; Oklahoma City, Oklahoma and San Diego, California. In addition, we own 36.4 acres of land being developed into office space in Springfield, Missouri. Our owned facilities represent approximately 793,000 square feet of office space in nine states. We have 48 leased office facilities in 20 states, which total approximately 436,000 square feet. Approximately 26% or 46,000 square feet of the office space in Allen, TX is leased to an outside tenant. The balance of our owned and leased office facilities are for normal business purposes.

Of our facilities, the credit union business segment uses office space totaling approximately 105,000 square feet in six facilities. The majority of our San Diego, California offices are used in the credit union business segment, as are portions of five other office facilities. The remainder of our leased and owned facilities, approximately 1,124,000 square feet of office space, is primarily devoted to serving our bank business segment or supports our whole business.

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

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

Fiscal 2009	High	Low
Fourth Quarter	\$20.99	\$16.95
Third Quarter	19.94	14.29

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Second Quarter	20.39	14.76
First Quarter	24.45	19.02

Fiscal 2008	High	Low
Fourth Quarter	\$27.48	\$21.62
Third Quarter	26.11	22.22
Second Quarter	29.24	24.34
First Quarter	27.50	23.39

The Company established a practice of paying quarterly dividends at the end of fiscal 1990 and has paid dividends with respect to every quarter since that time. Quarterly dividends per share paid on the common stock for the two most recent fiscal years ended June 30, 2009 and 2008 are as follows:

Fiscal 2009	Dividend
Fourth Quarter	\$0.085
Third Quarter	0.085
Second Quarter	0.075
First Quarter	0.075

Fiscal 2008	Dividend
Fourth Quarter	\$0.075
Third Quarter	0.075
Second Quarter	0.065
First Quarter	0.065

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

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

On August 21, 2009, there were approximately 47,000 holders of the Company's common stock. On that same date the last sale price of the common shares as reported on NASDAQ was \$23.59 per share.

#### Performance Graph

The following chart presents a comparison for the five-year period ended June 30, 2009, of the market performance of the Company's common stock with the S & P 500 Index and an index of peer companies selected by the Company:

This comparison assumes \$100 was invested on June 30, 2004, and assumes reinvestments of dividends. Total returns are calculated according to market capitalization of peer group members at the beginning of each period. Peer companies selected are in the business of providing specialized computer software, hardware and related services to financial institutions and other businesses. Companies in the peer group are Affiliated Computer Services, Inc., Bottomline Technology, Inc., Cerner Corp., DST Systems, Inc., Euronet Worldwide, Inc., Fair Isaac Corp., Fidelity National Financial, Inc., Fiserv, Inc., Goldleaf Financial Solutions, Inc., Metavante Technologies, Inc., Online Resources Corp., S1 Corp., SEI Investments Company, Telecommunications Systems, Inc., and Tyler Technologies Corp.

Item 6. Selected Financial Data

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

YEAR ENDED JUNE 30,

<u>Income Statement Data</u>	2009	2008	2007	2006	2005
Revenue <sup>(1)</sup>	\$ 745,593	\$ 742,926	\$ 666,467	\$ 590,877	\$ 535,191
	\$ 103,102	\$ 105,287	\$ 105,644	\$ 90,863	\$ 76,050

## Income from continuing operations

Diluted net income per share, continuing operations	\$	1.22	\$	1.17	\$	1.15	\$	0.97	\$	0.82
---	----	------	----	------	----	------	----	------	----	------

Dividends declared per share	\$	0.32	\$	0.28	\$	0.24	\$	0.20	\$	0.17
------------------------------	----	------	----	------	----	------	----	------	----	------

Balance Sheet Data

Working capital	\$	15,239	\$	(11,418)	\$	19,908	\$	42,918	\$	13,710
Total assets	\$	1,050,700	\$	1,021,044	\$	999,340	\$	906,067	\$	814,153
Long-term debt	\$	-	\$	24	\$	128	\$	421	\$	-
Stockholders' equity	\$	626,506	\$	601,451	\$	598,365	\$	575,212	\$	517,154

Revenue includes license sales, support and service revenues, and hardware sales, less returns and allowances.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

**OVERVIEW**

## Background and Overview

We provide integrated computer systems for in-house and outsourced data processing to commercial banks, credit unions and other financial institutions. We have developed and acquired banking and credit union application software systems that we market, together with compatible computer hardware, to these financial institutions. We also perform data conversion and software implementation services for our systems and provide continuing customer support services after the systems are implemented. For our customers who prefer not to make an up-front capital investment in software and hardware, we provide our full range of products and services on an outsourced basis through our eight data centers in six physical locations and 12 item-processing centers located throughout the United States.

A detailed discussion of the major components of the results of operations follows. All dollar amounts are in thousands and discussions compare fiscal 2009 to fiscal 2008 and compare fiscal 2008 to fiscal 2007.

We derive revenues from three primary sources:

- software licenses;
- support and service fees, which include implementation services; and
- hardware sales, which includes all non-software remarketed products.

Over the last five fiscal years, our revenues have grown from \$535,191 in fiscal 2005 to \$745,593 in fiscal 2009. Income from continuing operations has grown from \$76,050 in fiscal 2005 to \$103,102 in fiscal 2009. This growth has resulted primarily from internal expansion supplemented by strategic acquisitions, allowing us to develop and



acquire new products and services for approximately 9,800 customers who utilize our software systems as of June 30, 2009.

Since the start of fiscal 2007, we have completed 3 acquisitions. All of these acquisitions were accounted for using the purchase method of accounting and our consolidated financial statements include the results of operations of the acquired companies from their respective acquisition dates.

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

Support and services fees are generated from implementation services contracted with us by the customer, ongoing support services to assist the customer in operating the systems and to enhance and update the software, and from providing outsourced data processing services and Electronic Funds Transfer ("EFT") support services. Outsourcing services are performed through our data and item processing centers. Revenues from outsourced item and data processing and EFT support services are primarily derived from monthly usage or transaction fees typically under five-year service contracts with our customers.

Cost of license fees represents the third party vendor costs associated with license fee revenue.

Cost of services 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, EFT services, and direct operation costs.

We have entered into remarketing agreements with several hardware manufacturers under which we sell computer hardware and related services to our customers. Cost of hardware consists of the direct and related costs of purchasing the equipment from the manufacturers and delivery to our customers.

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

## RESULTS OF OPERATIONS

### FISCAL 2009 COMPARED TO FISCAL 2008

In fiscal 2009, revenues remained fairly even compared to the prior year as growth in Support and services revenue was offset by decreases in license and hardware revenue. This continuing shift in sales mix resulted in slightly leaner gross and operating margins. As a result, revenue that was consistent with the prior year yielded income from continuing operations that was down 2% in comparison to fiscal 2008.

The US financial crisis is a primary concern at this time as it threatens our customers and our industry. The profits of many financial institutions have decreased and this has resulted in some reduction of demand for new products and services. We remain cautiously optimistic, however, with increasing portions of our business coming from recurring revenue, increases in backlog and encouraging sales pipeline in specific areas. Our customers will continue to face regulatory and operational challenges which our products and services address, and in these times have an even greater need for some of our solutions that directly address institutional profitability and efficiency. We face these uncertain times with a strong balance sheet and an unwavering commitment to superior customer service, and we believe that we are well positioned to address current opportunities as well as those which will arise when the economic rebound occurs.

## REVENUE

*License Revenue*

	Year Ended June 30,		% Change
	<u>2009</u>	<u>2008</u>	
License	\$ 58,434	\$ 73,553	-21%
Percentage of total revenue	8%	10%	

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

As a result of the current economic downturn, we have seen some of our customers postpone making large capital investments in technology, including software. In addition, our customers are often electing to contract for our products via an outsourced delivery rather than a traditional license agreement. Our outsourced delivery does not require our customers to make a large, up-front capital investment in license fees or hardware. During fiscal 2009, our core software products either had a decrease in license revenue or they remained even compared to the prior year. In particular, Episys®, our flagship core solution for credit unions experienced a decrease. Episys revenue has decreased as we have seen a decrease in the average size of contracts delivered during the year. Those contracts were smaller on average since they were made with smaller credit unions. Our license revenues for most of our complementary software solutions are also down compared to the prior year with the exception of certain of our item and document imaging solutions, particularly Synergy Enterprise Content Management, which has experienced 31% growth over the prior year.

## Support and Service Revenue

	Year Ended June 30,		% Change
	<u>2009</u>	<u>2008</u>	
Support and service	\$ 614,242	\$ 580,334	+6%
Percentage of total revenue	82%	78%	

## Year Over Year Change

	<u>\$ Change</u>	<u>% Change</u>
In-House Support & Other Services	\$ 19,692	8%
EFT Support	15,699	12%
Outsourcing Services	4,059	3%
Implementation Services	(5,542)	-9%
Total Increase	\$ 33,908	

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

There was strong growth in most support and service revenue components in fiscal 2009. In-house support and other services increased partially as a result of license agreements for which the implementations were completed during the latest twelve months. In addition, because annual maintenance fees are based on supported institutions' asset size, in-house support revenues increase as our customers' assets grow.

EFT support, including ATM and debit card transaction processing, online bill payment services, remote deposit capture and transaction processing services, experienced the largest percentage growth as we have seen strong growth in our bill pay and enterprise payment solutions. In addition, we have seen continuing expansion of our customer basis for EFT support as a whole.

Overall, Outsourcing services revenue grew only slightly. However, our core data processing revenue increased over 8% year-to-date compared to last year as our customers continue to choose outsourcing for the delivery of our solutions. These gains have been largely offset by a decrease in de-conversion revenue and in item processing revenue. We expect the trend towards outsourced product delivery to benefit Outsourcing services revenue; however, we also expect item-processing revenue to continue to decline as fewer paper checks are processed in favor of check images and remote deposit capture.

The decrease in implementation services revenue is related to fewer convert/merger implementations for our bank customers due to the slowdown in bank merger and acquisition activity in the current market environment.

#### Hardware Revenue

	Year Ended June 30,		% Change
	<u>2009</u>	<u>2008</u>	
Hardware	\$ 72,917	\$ 89,039	-18%
Percentage of total revenue	10%	12%	

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

Hardware revenue decreased mainly due to a decrease in the number of hardware systems and components delivered in the current year compared to a year ago. Hardware revenue has been negatively impacted by the decrease in the number of implementations of licensed core systems and the increase in outsourcing contracts, which typically do not include hardware. Additionally, during the prior fiscal year, hardware revenue was increased by increased IBM System i upgrades, which have not occurred at the same level in the current fiscal year.

#### COST OF SALES AND GROSS PROFIT

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

#### Cost of Sales and Gross Profit

	Year Ended June 30,	% Change
--	---------------------	----------

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

	<u>2009</u>	<u>2008</u>	
Cost of License	\$ 6,885	\$ 6,698	+3%
Percentage of total revenue	<1%	<1%	
License Gross Profit	\$ 51,549	\$ 66,855	-23%
Gross Profit Margin	88%	91%	
Cost of support and service	\$ 385,837	\$ 364,140	+6%
Percentage of total revenue	52%	49%	
Support and Service Gross Profit	\$ 228,405	\$ 216,194	+6%
Gross Profit Margin	37%	37%	
Cost of hardware	\$ 53,472	\$ 64,862	-18%
Percentage of total revenue	7%	9%	
Hardware Gross Profit	\$ 19,445	\$ 24,177	-20%
Gross Profit Margin	27%	27%	
TOTAL COST OF SALES	\$ 446,194	\$ 435,700	+2%
Percentage of total revenue	60%	59%	
TOTAL GROSS PROFIT	\$ 299,399	\$ 307,226	-3%
Gross Profit Margin	40%	41%	

Cost of license increased for the fiscal year due to greater third party reseller agreement software vendor costs. These costs have led to gross profit margin on license revenue being lower than the prior year. We expect this impact of third party software to continue to result in license gross profit margins that are lower than in prior years as third party software becomes a larger portion of our total license revenue.

Cost of support and service increased for the year commensurate with an increase in support and service revenue, which led to gross profit margin consistent with that realized in the prior year.

Cost of hardware decreased for the year in line with the decrease in hardware revenue. Hardware gross profit margin remained at 27% for both years.

OPERATING EXPENSES

Selling and Marketing

	Year Ended June 30,		% Change
	<u>2009</u>	<u>2008</u>	
Selling and marketing	\$ 54,931	\$ 55,916	-2%

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Percentage of total revenue 7% 8%

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

For the 2009 fiscal year, the selling and marketing expenses decrease was due to lower marketing expenses, including lower product promotion and trade show expenses, than were incurred in the prior year. Overall, Selling and marketing expenses decreased slightly as a percentage of total revenue in comparison to a year ago. Commission expense has remained level compared to last year due to lower license and hardware revenues, partially offset by growth in support and service revenue.

Research and Development

	Year Ended June 30,		% Change
	<u>2009</u>	<u>2008</u>	
Research and development	\$ 42,901	\$ 43,326	-1%
Percentage of total revenue	6%	6%	

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

Research and development expenses decreased slightly for fiscal year 2009 primarily due to cost control measures undertaken by the Company. These measures included a reduction in the use of consultants and independent contractors compared to last year. As a result of these efforts, Research and development expenses have remained level at 6% of total revenue.

General and Administrative

	Year Ended June 30,		% Change
	<u>2009</u>	<u>2008</u>	
General and administrative	\$ 43,681	\$ 43,775	-0%
Percentage of total revenue	6%	6%	

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs. General and administrative expense have remained level for the current year compared to prior year, as cost control measures have slowed the growth in personnel costs and reduced travel and other operating expenses. General and administrative expenses have remained a consistent 6% of total revenue for both years.

INTEREST INCOME (EXPENSE)

Interest income decreased 64% from \$2,145 to \$781 due primarily to lower average invested balances coupled with lower interest rates on invested balances. Interest expense decreased 30% from \$1,928 to \$1,357 due to lower average interest rates on outstanding borrowings on the revolving bank credit facilities.

PROVISION FOR INCOME TAXES

The provision for income taxes was \$54,208 or 34.5% of income before income taxes in fiscal 2009 compared with \$59,139 or 36.0% of income before income taxes fiscal 2008. The decrease was primarily due to the renewal of the Research and Experimentation Credit ("R&E Credit"), during fiscal year 2009, retroactive to January 1, 2008. Renewal of this credit had a significant tax benefit in fiscal year 2009 since retroactive renewal required the recording of an additional six months of credit during fiscal year 2009 related to fiscal year 2008.

#### INCOME FROM CONTINUING OPERATIONS

Income from continuing operations decreased slightly, moving from \$105,287, or \$1.17 per diluted share in fiscal 2008 to \$103,102, or \$1.22 per diluted share in fiscal 2009.

#### DISCONTINUED OPERATIONS

There was no gain or loss from discontinued operations for fiscal 2009. Loss on discontinued operations, net of taxes, was \$1,065 for fiscal 2008. The loss included a loss on the sale of Banc Insurance Services, Inc. and Banc Insurance Agency, Inc. of \$2,718, and a \$1,457 loss on the operations of the two companies. The income tax benefit on the loss amount was \$3,110.

#### FISCAL 2008 COMPARED TO FISCAL 2007

Fiscal 2008 showed strong growth in support and service revenues, tempered somewhat by leaner gross and operating margins. As a result, an 11% increase in total revenue yielded income from continuing operations that was flat in comparison to fiscal 2007.

#### REVENUE

##### License Revenue

	Year Ended June 30,		% Change
	<u>2008</u>	<u>2007</u>	
License	\$ 73,553	\$ 76,403	-4%
Percentage of total revenue	10%	11%	

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

License revenue decreased by \$2,850 compared to last fiscal year mainly due to a decrease in the number of new license agreements and an overall decrease in the average transaction size in comparison to the prior fiscal year. When compared with last year, many of our software solutions experienced a decrease in license revenue. Those products that had the most significant decreases included Yellow Hammer Fraud Detective™ (our fraud detection/prevention solution), Silverlake

® (our flagship core software solution for larger banks), and Synergy (our enterprise content management solution). A significant portion of the decrease in license revenue can be attributed to the continuing shift in demand by banks and credit unions toward our outsourcing services from an in-house delivery. While many products had decreases in revenue during the current fiscal year, some products did very well, including Episys®, our flagship core processing system aimed at larger credit unions, and Yellow Hammer™ BSA, our new compliance and risk mitigation solution.

##### Support and Service Revenue

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

	Year Ended June 30,		% Change
	<u>2008</u>	<u>2007</u>	
Support and service	\$ 580,334	\$ 501,722	+16%
Percentage of total revenue	78%	75%	

Year Over Year Change	\$ Change	% Change
In-House Support & Other Services	\$ 32,685	15%
EFT Support	30,601	29%
Outsourcing Services	11,467	10%
Implementation Services	3,859	6%
Total Increase	\$ 78,612	

Support and service revenues are generated from implementation services (including conversion, installation, configuration and training), annual support to assist the customer in operating their systems and to enhance and update the software, outsourced data processing services and EFT Support services (including ATM and debit card transaction processing, online bill payment services, remote deposit capture and Check 21 transaction processing services).

There was strong growth in all of the support and service revenue components. In-house support and other services increased partially as a result of increased implementations of recently acquired products. In addition, because annual maintenance fees are based on supported institutions' asset size, in-house support revenues increase as our customers' assets grow. EFT support, which includes ATM/debit card processing, on-line bill pay, remote deposit capture and Check 21 transaction processing services, experienced the largest percentage growth due to increased customer activity and expansion of our customer base. Outsourcing services for banks and credit unions also continue to drive revenue growth at a strong pace as we add new bank and credit union customers and increase volume. Implementation services revenue increased during the year partially due to implementations of newly acquired or developed software products, as well as an increase in merger conversions for existing customers that acquired other financial institutions.

Hardware Revenue

	Year Ended June 30,		% Change
	<u>2008</u>	<u>2007</u>	
Hardware	\$ 89,039	\$ 88,342	+1%
Percentage of total revenue	12%	13%	

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 current fiscal year because a small decrease in the sale of major hardware components was offset by slight increases in revenue from the sale of financial institution forms and supplies and from hardware maintenance contracts.

## COST OF SALES AND GROSS PROFIT

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

## Cost of Sales and Gross Profit

	Year Ended June 30,		% Change
	<u>2008</u>	<u>2007</u>	
Cost of License	\$ 6,698	\$ 4,277	+57%
Percentage of total revenue	<1%	<1%	
License Gross Profit	\$ 66,855	\$ 72,126	-7%
Gross Profit Margin	91%	94%	
Cost of support and service	\$ 364,140	\$ 309,919	+17%
Percentage of total revenue	49%	47%	
Support and Service Gross Profit	\$ 216,194	\$ 191,803	+13%
Gross Profit Margin	37%	38%	
Cost of hardware	\$ 64,862	\$ 65,469	-1%
Percentage of total revenue	9%	10%	
Hardware Gross Profit	\$ 24,177	\$ 22,873	+6%
Gross Profit Margin	27%	26%	
TOTAL COST OF SALES	\$ 435,700	\$ 379,665	+15%
Percentage of total revenue	59%	57%	
TOTAL GROSS PROFIT	\$ 307,226	\$ 286,802	+7%
Gross Profit Margin	41%	43%	

Cost of license increased for the fiscal year due to greater third party reseller agreement software vendor costs. Gross profit margin on license revenue decreased because a larger percentage of the revenue from licenses was attributable to these sales under reseller agreements where the gross margins are significantly lower than on our owned products. Cost of support and service increased for the year primarily due to additional personnel costs, costs related to the expansion of infrastructure (including depreciation, amortization, and maintenance contracts) and increases in the direct costs of providing services (such as transaction processing charges and the cost of third party maintenance) as compared to last year. These increases were commensurate with the increase in support and service revenue. The gross profit margin decreased to 37% from 38% in support and service. Cost of hardware decreased for the year. Hardware gross profit margin increased slightly due to sales mix.



## OPERATING EXPENSES

## Selling and Marketing

	Year Ended June 30,		% Change
	<u>2008</u>	<u>2007</u>	
Selling and marketing	\$ 55,916	\$ 50,195	+11%
Percentage of total revenue	8%	8%	

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

For the 2008 fiscal year, the selling and marketing expenses increase was due to growth in personnel costs, particularly commission expenses on sales of services, which resulted from increased services revenue. Selling and Marketing expenses remained steady for both years at 8% of total revenue.

## Research and Development

	Year Ended June 30,		% Change
	<u>2008</u>	<u>2007</u>	
Research and development	\$ 43,326	\$ 35,962	+20%
Percentage of total revenue	6%	5%	

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

Research and development expenses grew primarily due to employee costs associated with an 11% increase in headcount for ongoing development of new products and enhancements to existing products. In addition, recent acquisitions have research and development expenses that exceed the average for the remainder of the Company, which has contributed to the increase from the prior fiscal year. Research and development expenses increased slightly to 6% of total revenue from 5% in fiscal 2007.

## General and Administrative

	Year Ended June 30,		% Change
	<u>2008</u>	<u>2007</u>	
General and administrative	\$ 43,775	\$ 40,617	+8%
Percentage of total revenue	6%	6%	

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs. General and administrative expense increased primarily due to employee costs associated with a 4% increase in headcount and to an increase in professional services fees (fees for accounting, legal and business consultants). Also impacting the increase was growth in travel and lodging expenses (including the cost of aircraft fuel). General and administrative costs remained at 6% of total revenue for both fiscal years.

## INTEREST INCOME (EXPENSE)

Interest income decreased 37% from \$3,406 to \$2,145 due primarily to lower average invested balances coupled with lower interest rates on invested balances. Interest expense increased 10% from \$1,757 to \$1,928 due to higher average outstanding borrowings on the revolving bank credit facilities.

## PROVISION FOR INCOME TAXES

The provision for income taxes was \$59,139 or 36.0% of income before income taxes in fiscal 2008 compared with \$56,033 or 34.7% of income before income taxes fiscal 2007. The increase was due to the renewal of the Research and Experimentation Credit ("R&E Credit"), during fiscal year 2007, retroactive to January 1, 2006. Renewal of this credit had a significant tax benefit in fiscal year 2007 since retroactive renewal required the recording of an additional six months of credit during fiscal year 2007 related to fiscal year 2006. In addition, the R&E Credit expired as of December 31, 2007, which also contributed to the increase in the tax rate for fiscal year 2008.

## INCOME FROM CONTINUING OPERATIONS

Income from continuing operations remained relatively flat, moving from \$105,644, or \$1.15 per diluted share in fiscal 2007 to \$105,287, or \$1.17 per diluted share in fiscal 2008.

## DISCONTINUED OPERATIONS

Loss on discontinued operations, net of taxes, was \$1,065 for fiscal 2008. The loss included a loss on the sale of Banc Insurance Services, Inc. and Banc Insurance Agency, Inc. of \$2,718, and a \$1,457 loss on the operations of the two companies. The income tax benefit on the loss amount was \$3,110. The loss on operations of the disposed companies for fiscal 2007 included a loss from operations of \$1,474, netted with the income tax benefit of \$511.

## BUSINESS SEGMENT DISCUSSION

## Bank Systems and Services

	2009	% Change	2008	% Change	2007
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Revenue	\$ 617,711	+<1%	\$ 616,390	+11%	\$ 555,861
Gross Profit	\$ 247,812	-3%	\$ 255,870	+5%	\$ 244,788
Gross Profit Margin	40%		42%		44%

In fiscal 2009, revenue remained essentially even in the bank systems and services business segment compared to the prior year. Support and service revenue increased for most lines, particularly EFT support which experienced 9% revenue growth and in-house support which experienced 8% revenue growth. The growth in these components was offset by a 14% decrease in license revenue and a 15% decrease in hardware revenue. Gross profit margin decreased as the mix of revenue shifted away from license revenue (which carries the largest margins) toward support and service revenue. Hardware profit margins remained even compared to fiscal 2008.

In fiscal 2008, the revenue increase in the bank systems and services business segment is primarily due to continued growth in support and service revenue, particularly EFT support which experienced 29% revenue growth and in-house support which experienced 16% revenue growth. The growth in these components was partially offset by a 13% decrease in license revenue. Gross profit margin decreased as the mix of revenue shifted away from license revenue (which carries the largest margins) toward support and service revenue. Hardware revenue decreased by 2%; however, a shift in sales mix during fiscal 2008 compared to fiscal 2007 led to a slightly higher hardware margin.

## Credit Union Systems and Services

	2009	% Change	2008	% Change	2007
Revenue	\$ 127,882	+1%	\$ 126,536	+14%	\$ 110,606
Gross Profit	\$ 51,587	+<1%	\$ 51,356	+22%	\$ 42,014
Gross Profit Margin	40%		41%		38%

In fiscal 2009, revenues in the credit union systems and services business segment increased 1% from fiscal 2008. Support and service revenue, which is the largest component of total revenues for the credit union segment, experienced strong growth in all revenue components and 18 percent growth overall. In particular, EFT Support experienced 32% revenue growth over the prior year. The growth in Support and service revenue was offset by decreases in both license and hardware revenue. Gross profit in this business segment remained even in fiscal 2009 compared to fiscal 2008.

In fiscal 2008, revenues in the credit union systems and services business segment increased 14% from fiscal 2007. All revenue components within the segment experienced growth during fiscal 2008. License revenue generated the largest dollar growth in revenue as Episys®, our flagship core processing system aimed at larger credit unions, experienced strong sales throughout the year. Support and service revenue, which is the largest component of total revenues for the credit union segment, experienced 34 percent growth in EFT support and 10 percent growth in in-house support. Gross profit in this business segment increased \$9,344 in fiscal 2008 compared to fiscal 2007, due primarily to the increase in license revenue, which carries the highest margins.

## LIQUIDITY AND CAPITAL RESOURCES

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

The Company's cash and cash equivalents increased to \$118,251 at June 30, 2009 from \$65,565 at June 30, 2008.

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

	Year ended June 30,		
	2009	2008	2007
Net income	\$ 103,102	\$ 104,222	\$ 104,681
Non-cash expenses	74,397	70,420	56,348
Change in receivables	21,214	(2,913)	(28,853)
Change in deferred revenue	21,943	5,100	24,576
Change in other assets and liabilities	(14,068)	4,172	17,495
Net cash from operating activities	\$ 206,588	\$ 181,001	\$ 174,247

Cash provided by operations increased \$25,587 to \$206,588 for the fiscal year ended June 30, 2009 as compared to \$181,001 for the fiscal year ended June 30, 2008. This increase is primarily attributable to a decrease in receivables compared to the same period a year ago of \$21,214. This decrease is largely the result of fiscal 2010 annual software maintenance billings being provided to customers earlier than in the prior year, which allowed more cash to be

collected before the end of the fiscal year than in previous years. Further, we collected more cash overall related to revenues that will be recognized in subsequent periods in the current year than in fiscal 2008.

Cash used in investing activities for the fiscal year ended June 2009 was \$59,227 and includes \$3,027 in contingent consideration paid on prior years' acquisitions. Cash used in investing activities for the fiscal year ended June 2008 was \$102,148 and includes payments for acquisitions of \$48,109, plus \$1,215 in contingent consideration paid on prior years' acquisitions. Capital expenditures for fiscal 2009 were \$31,562 compared to \$31,105 for fiscal 2008. Cash used for software development in fiscal 2009 was \$24,684 compared to \$23,736 during the prior year.

Net cash used in financing activities for the current fiscal year was \$94,675 and includes the repurchase of 3,106 shares of our common stock for \$58,405, the payment of dividends of \$26,903 and \$13,489 net repayment on our revolving credit facilities. Cash used in financing activities was partially offset by proceeds of \$3,773 from the exercise of stock options and the sale of common stock (through the employee stock purchase plan) and \$348 excess tax benefits from stock option exercises. During fiscal 2008, net cash used in financing activities for the fiscal year was \$101,905 and includes the repurchase of 4,200 shares of our common stock for \$100,996, the payment of dividends of \$24,683 and \$429 net repayment on our revolving credit facilities. Cash used in financing activities was partially offset by proceeds of \$20,394 from the exercise of stock options and the sale of common stock and \$3,809 excess tax benefits from stock option exercises.

Beginning during fiscal 2008, US financial markets and many of the largest US financial institutions have been shaken by negative developments in the home mortgage industry and the mortgage markets, and particularly the markets for subprime mortgage-backed securities. Since that time, these and other such developments have resulted in a broad, global economic downturn. While we, as is the case with most companies, have experienced the effects of this downturn, we have not experienced any significant issues with our current collection efforts, and we believe that any future impact to our liquidity will be minimized by cash generated by recurring sources of revenue and due to our access to available lines of credit.

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves of short-term borrowings on its existing credit facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2008, there were 11,301 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,690 additional shares. On August 25, 2008, the Company's Board of Directors approved a 5,000 share increase to the stock repurchase authorization. During fiscal 2009, the Company repurchased 3,106 treasury shares for \$58,405. The total cost of treasury shares at June 30, 2009 is \$309,585. At June 30, 2009, there were 14,407 shares in treasury stock and the Company had the authority to repurchase up to 5,584 additional shares.

Subsequent to June 30, 2009, the Company's Board of Directors declared a cash dividend of \$0.085 per share on its common stock payable on September 17, 2009, to stockholders of record on September 4, 2009. Current funds from operations are adequate for this purpose. The Board has indicated that it plans to continue paying dividends as long as the Company's financial picture continues to be favorable.

The Company renewed a bank credit line on April 28, 2008 which provides for funding of up to \$5,000 and bears interest at the bank's prime rate less 1% (2.25%

at June 30, 2009). The credit line matures on April 29, 2010. At June 30, 2009, no amount was outstanding.

The Company renewed a credit line on March 7, 2009 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25%

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

at June 30, 2009). The credit line expires March 7, 2010 and is secured by \$1,000 of investments. There were no outstanding amounts at June 30, 2009.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000, which may be increased by the Company at any time until maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured revolving credit line terminates May 31, 2012. At June 30, 2009, the outstanding revolving bank credit facility balance was \$60,000. This outstanding balance bears interest at a weighted average rate of 0.73%. This credit line is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of June 30, 2009, the Company was in compliance with all such covenants.

The Company has entered into various capital lease obligations for the use of certain computer equipment. Included in property and equipment are related assets of \$6,907, less accumulated depreciation of \$877. At June 30, 2009, \$3,461 was outstanding, all of which will be maturing in the next twelve months.

### CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

At June 30, 2009 the Company's total off balance sheet contractual obligations were \$50,820. This balance consists of \$24,660 of long-term operating leases for various facilities and equipment which expire from 2010 to 2017 and the remaining \$26,160 is for purchase commitments related to property and equipment, particularly for contractual obligations related to the on-going construction of a new facility in Springfield, Missouri. The table excludes \$6,249 of liabilities under the Financial Accounting Standards Board's Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," as we are unable to reasonably estimate the ultimate amount or timing of settlement.

Contractual obligations by period as of June 30, 2009	Less than 1 year	1-3 years	3-5 years	More than 5 years	TOTAL
Operating lease obligations	\$ 8,759	\$ 7,994	\$ 4,519	\$ 3,388	24,660
Capital lease obligations	3,461	-	-	-	3,461
Note payable, including accrued interest	60,045	-	-	-	60,045
Purchase obligations	25,750	410	-	-	26,160
<b>Total</b>	<b>\$ 98,015</b>	<b>\$ 8,404</b>	<b>\$ 4,519</b>	<b>\$ 3,388</b>	<b>114,326</b>

### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("SFAS") No. 157, "*Fair Value Measurements*" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and requires enhanced disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. Relative to SFAS 157, the FASB issued Staff Positions ("FSP") 157-1, 157-2 and 157-3. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, "*Accounting for Leases*" ("SFAS 13"), and its related interpretive accounting pronouncements that address leasing transactions. FSP 157-2 delayed the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining fair value of a financial asset when the market for that

financial asset is not active. SFAS 157 was effective for the Company beginning on July 1, 2008. Its adoption did not have a material impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*," ("SFAS 141(R)") which replaces SFAS No. 141. SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquire and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users of the financial statements to evaluate the nature and financial effects of the business combination. Relative to SFAS 141(R), the FASB issued FSP 141(R)-1 on April 1, 2009. FSP 141(R)-1 eliminates the requirement under FAS 141(R) to record assets or liabilities at the acquisition date for noncontractual contingencies at fair value where it is deemed "more-likely-than-not" that an asset or liability would result. Under FSP 141(R)-1, such assets and liabilities would only need to be recorded where the fair value can be determined during the measurement period or where it is probable that an asset or liability exists at the acquisition date and the amount of fair value can be reasonably determined. SFAS 141(R) is effective for the Company on July 1, 2009. SFAS 141(R) will have an impact on the Company's accounting for business combinations on a prospective basis once adopted; however, the materiality of that impact cannot be determined at this time.

In April 2008, the FASB issued FSP FAS 142-3, "*Determination of the Useful Life of Intangible Assets*" ("FSP 142-3"). This pronouncement amends SFAS No. 142, regarding the factors that should be considered in developing the useful lives for intangible assets with renewal or extension provisions. FSP 142-3 requires an entity to consider its own historical experience in renewing or extending similar arrangements, regardless of whether those arrangements have explicit renewal or extension provisions, when determining the useful life of an intangible asset. In the absence of such experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for entity-specific factors. FSP 142-3 also requires an entity to disclose information regarding the extent to which the expected future cash flows associated with an intangible asset are affected by the entity's intent and/or ability to renew or extend the arrangement. FSP 142-3 will be effective for qualifying intangible assets acquired by the Company on or after July 1, 2009. The application of FSP 142-3 is not expected to have a material impact on the Company's financial statements; however, it could impact future transactions entered into by the Company.

In June 2009, the FASB issued SFAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*" ("SFAS 168"), which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS 168 explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 will become effective in the first fiscal quarter of fiscal 2010 and is not expected to have a material impact on the Company's financial statements.

## CRITICAL ACCOUNTING POLICIES

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

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

statements.

#### Revenue Recognition

We recognize revenue in accordance with the provisions of Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Software Revenue Recognition, with Respect to Certain Transactions," and clarified by Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," SAB 104, "Revenue Recognition," and Emerging Issues Task Force Issue No. 00-21 ("EITF 00-21"), "Accounting for Revenue Arrangements with Multiple Deliverables." The application of these pronouncements requires judgment, including whether a software arrangement includes multiple elements, whether any elements are essential to the functionality of any other elements, and whether vendor-specific objective evidence ("VSOE") of fair value exists for those elements. Customers receive certain elements of our products over time. Changes to the elements in a software arrangement or in our ability to identify VSOE for those elements could materially impact the amount of earned and unearned revenue reflected in the financial statements.

#### License Fee Revenue.

For software license agreements that do not require significant modification or customization of the software, the Company recognizes software license revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred, the license fee is fixed and determinable and collection is probable. The Company's software license agreements generally include multiple products and services or "elements." None of these elements alone are deemed to be essential to the functionality of the other elements. SOP 97-2, as amended by SOP 98-9, generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on VSOE of fair value. Fair value is determined for license fees based upon the price charged when sold separately. In the event that we determine that VSOE does not exist for one or more of the delivered elements of a software arrangement, but does exist for all of the undelivered elements, revenue is recognized the residual method allowed by SOP 98-9. Under the residual method, a residual amount of the total arrangement fee is recognized as revenue for the delivered elements after the established fair value of all undelivered elements has been deducted.

#### Support and Service Fee Revenue.

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

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

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

#### Hardware Revenue:

Hardware revenue is recognized upon delivery to the customer, when title and risk of loss are transferred. In most cases, we do not stock in inventory the hardware products we sell, but arrange for third-party suppliers to drop-ship the products to our customers on our behalf. Some of our hardware revenues are derived under "arrangements" as defined by SOP 97-2. To the extent hardware revenue is subject to SOP 97-2 and is not deemed essential to the functionality of any of the other elements to the arrangement, it is recognized based on VSOE of fair value at the time of delivery. For these transactions, the Company follows the guidance provided in Emerging Issues Task Force Issue ("EITF") No. 99-19, "*Reporting Revenue Gross as a Principal versus Net as an Agent.*" Based upon the indicators provided within this consensus, the Company records the revenue related to our drop-ship transactions at gross and the related costs are included in cost of hardware. The Company also remarkets maintenance contracts on hardware to our customers. Hardware maintenance revenue is recognized ratably over the agreement period.

#### Depreciation and Amortization Expense

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

#### Capitalization of software development costs

We capitalize certain costs incurred to develop commercial software products and to develop or purchase internal-use software. Significant estimates and assumptions include: determining the appropriate period over which to amortize the capitalized costs based on the estimated useful lives, estimating the marketability of the commercial software products and related future revenues, and assessing the unamortized cost balances for impairment. For commercial software products, determining the appropriate amortization period is based on estimates of future revenues from sales of the products. We consider various factors to project marketability and future revenues, including an assessment of alternative solutions or products, current and historical demand for the product, and anticipated changes in technology that may make the product obsolete. A significant change in an estimate related to one or more software products could result in a material change to our results of operations.

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

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We also must determine the likelihood of recoverability of deferred tax assets, and adjust any valuation allowances accordingly. Considerations include the period of expiration of the tax asset, planned use of the tax asset, and historical and projected taxable income as well as tax liabilities for the tax jurisdiction to which the tax asset relates. Valuation allowances are evaluated periodically and will be subject to change in each future reporting period as a result of changes in one or more of these factors. Also, Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48") - *"Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109,"* requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect our financial results.

#### Assumptions related to purchase accounting and goodwill

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

As goodwill is not amortized, goodwill balances are regularly assessed for potential impairment. Such assessments require an analysis of future cash flow projections as well as a determination of an appropriate discount rate to



calculate present values. Cash flow projections are based on management-approved estimates, which involve the input of numerous Company professionals from finance, operations and program management. Key factors used in estimating future cash flows include assessments of labor and other direct costs on existing contracts, estimates of overhead costs and other indirect costs, and assessments of new business prospects and projected win rates. Significant changes in the estimates and assumptions used in purchase accounting and goodwill impairment testing can have a material effect on the consolidated financial statements.

## FORWARD LOOKING STATEMENTS

Except for the historical information contained herein, the matters discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations 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 in "Risk Factors" in Item 1A of this report. 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.

Potential risks and uncertainties which could adversely affect the Company include: the financial health of the financial services industry, our ability to continue or effectively manage growth, adapting our products and services to changes in technology, changes in our strategic relationships, price competition, loss of key employees, consolidation in the banking or credit union industry, increased government regulation, network or internet security problems, operational problems in our outsourcing facilities and others listed in "Risk Factors" at Item 1A.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, indices, volatilities, correlations or other market factors such as liquidity, will result in losses for a certain financial instrument or group of financial instruments. We are currently exposed to credit risk on credit extended to customers and interest risk on investments in U.S. government securities. We actively monitor these risks through a variety of controlled procedures involving senior management. We do not currently use any derivative financial instruments. Based on the controls in place, credit worthiness of the customer base and the relative size of these financial instruments, we believe the risk associated with these instruments will not have a material adverse effect on our consolidated financial position or results of operations.

## Item 8. Financial Statements and Supplementary Data

### Index to Financial Statements

Report of Independent Registered Public Accounting Firm	40
Management's Annual Report on Internal Control over Financial Reporting	41
Report of Independent Registered Public Accounting Firm	42
Financial Statements	
Consolidated Statements of Income, Years Ended June 30, 2009, 2008, and 2007	43
	44

Consolidated Balance Sheets, June 30, 2009 and  
2008

Consolidated Statements of Changes in  
Stockholders' Equity,  
Years Ended June 30, 2009, 2008, and 2007 45

Consolidated Statements of Cash Flows,  
Years Ended June 30, 2009, 2008, and 2007 46

Notes to Consolidated Financial Statements 47

#### Financial Statement Schedules

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

---

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Jack Henry & Associates, Inc.  
Monett, Missouri

We have audited the accompanying balance sheets of Jack Henry & Associates, Inc. and subsidiaries (the "Company") as of June 30, 2009 and 2008, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal 2008 the Company changed its method of accounting for income taxes to conform to FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2009, based on the criteria established in

*Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* and our report dated August 28, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

St. Louis, Missouri

August 28, 2009

---

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

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

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

As of the end of the Company's 2009 fiscal year, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on this assessment, management has determined the Company's internal control over financial reporting as of June 30, 2009 was effective.

The Company's internal control over financial reporting as of June 30, 2009 has been audited by the Company's independent registered public accounting firm, as stated in their report appearing on the next page.

---

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Jack Henry & Associates, Inc.

Monett, Missouri

We have audited the internal control over financial reporting of Jack Henry & Associates, Inc. and subsidiaries (the "Company") as of June 30, 2009, based on criteria established in *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission*. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2009, based on the criteria established in *Internal Control-Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2009 of the Company and our report dated August 28, 2009 expressed an unqualified opinion, and includes an explanatory paragraph relating to a change in accounting for income taxes.

/s/ DELOITTE & TOUCHE LLP

St. Louis, Missouri

August 28, 2009

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

	YEAR ENDED JUNE 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>REVENUE</b>			
License	\$ 58,434	\$ 73,553	\$ 76,403
Support and service	614,242	580,334	501,722
Hardware	72,917	89,039	88,342
	745,593	742,926	666,467
<b>COST OF SALES</b>			
Cost of license	6,885	6,698	4,277
Cost of support and service	385,837	364,140	309,919
Cost of hardware	53,472	64,862	65,469
	446,194	435,700	379,665
	299,399	307,226	286,802
<b>GROSS PROFIT</b>			
<b>OPERATING EXPENSES</b>			
Selling and marketing	54,931	55,916	50,195
Research and development	42,901	43,326	35,962
General and administrative	43,681	43,775	40,617
	141,513	143,017	126,774
<b>OPERATING INCOME</b>	157,886	164,209	160,028
<b>INTEREST INCOME (EXPENSE)</b>			
Interest income	781	2,145	3,406
Interest expense	(1,357)	(1,928)	(1,757)
	(576)	217	1,649
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	157,310	164,426	161,677
<b>PROVISION FOR INCOME TAXES</b>	54,208	59,139	56,033
	103,102	105,287	105,644

INCOME FROM CONTINUING  
OPERATIONS

## DISCONTINUED OPERATIONS

(Note 12)

Loss from operations of discontinued component (including loss on disposal of 2,718 in 2008)	-	(4,175)	(1,474)
Income tax benefit	-	3,110	511
	<u>-</u>	<u>3,110</u>	<u>511</u>
Loss on discontinued operations	-	(1,065)	(963)
	<u>-</u>	<u>(1,065)</u>	<u>(963)</u>
NET INCOME	\$ 103,102	\$ 104,222	\$ 104,681
Continuing operations	\$ 1.22	\$ 1.17	\$ 1.15
Discontinued operations	-	(0.01)	(0.01)
	<u>-</u>	<u>(0.01)</u>	<u>(0.01)</u>
Diluted net income per share	\$ 1.22	\$ 1.16	\$ 1.14
Diluted weighted average shares outstanding	84,830	89,702	92,032
Continuing operations	\$ 1.23	\$ 1.19	\$ 1.17
Discontinued operations	-	(0.01)	(0.01)
	<u>-</u>	<u>(0.01)</u>	<u>(0.01)</u>
Basic net income per share	\$ 1.23	\$ 1.18	\$ 1.16
Basic weighted average shares outstanding	84,118	88,270	90,155

See notes to consolidated financial statements.

JACK HENRY & ASSOCIATES, INC AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In Thousands, Except Share and Per Share Data)

	JUNE 30,	
	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 118,251	\$ 65,565
Investments, at amortized cost	1,000	997
Receivables	192,733	213,947
Income tax receivable	2,692	-
Prepaid expenses and other	24,371	25,143

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Prepaid cost of product	19,717	19,515
Deferred income taxes	882	4,590
	<hr/>	<hr/>
Total current assets	359,646	329,757
PROPERTY AND EQUIPMENT, net	237,778	239,005
OTHER ASSETS:		
Prepaid cost of product	6,793	9,584
Computer software, net of amortization	82,679	74,943
Other non-current assets	11,955	10,564
Customer relationships, net of amortization	55,450	63,819
Trade names	3,999	3,999
Goodwill	292,400	289,373
	<hr/>	<hr/>
Total other assets	453,276	452,282
	<hr/>	<hr/>
Total assets	\$ 1,050,700	\$ 1,021,044
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,206	\$ 6,946
Accrued expenses	34,018	35,996
Accrued income taxes	1,165	15,681
Note payable and current maturities of capital leases	63,461	70,177
Deferred revenues	237,557	212,375
	<hr/>	<hr/>
Total current liabilities	344,407	341,175
LONG TERM LIABILITIES:		
Deferred revenues	7,981	11,219
Deferred income taxes	65,066	61,710
Other long-term liabilities, net of current maturities	6,740	5,489
	<hr/>	<hr/>
Total long term liabilities	79,787	78,418
	<hr/>	<hr/>
Total liabilities	424,194	419,593
STOCKHOLDERS' EQUITY		
Preferred stock - \$1 par value; 500,000 shares authorized, none issued	-	-
Common stock - \$0.01 par value: 250,000,000 shares authorized;		
Shares issued at 06/30/09 were		
98,020,796	980	977

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Shares issued at 06/30/08 were		
97,702,098		
Additional paid-in capital	298,378	291,120
Retained earnings	636,733	560,534
Less treasury stock at cost		
14,406,635 shares at 06/30/09, 11,301,045 shares at 06/30/08	(309,585)	(251,180)
	<u>                    </u>	<u>                    </u>
Total stockholders' equity	626,506	601,451
	<u>                    </u>	<u>                    </u>
Total liabilities and stockholders' equity	\$ 1,050,700	\$ 1,021,044

See notes to consolidated financial statements.

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

	YEAR ENDED JUNE 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
PREFERRED SHARES:	-	-	-
COMMON SHARES:			
Shares, beginning of year	97,702,098	96,203,030	93,955,663
Shares issued for equity-based payment arrangements	196,727	1,443,071	2,218,395
Shares issued for Employee Stock Purchase Plan	121,971	55,997	28,972
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Shares, end of year	98,020,796	97,702,098	96,203,030
COMMON STOCK - PAR VALUE \$0.01 PER SHARE:			
Balance, beginning of year	\$ 977	\$ 962	\$ 939
Shares issued for equity-based payment arrangements	2	14	23
Shares issued for Employee Stock Purchase Plan	1	1	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, end of year	\$ 980	\$ 977	\$ 962
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of year	\$ 291,120	\$ 262,742	\$ 224,195
Shares issued upon exercise of stock options	1,882	19,151	28,557



Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Shares issued for Employee Stock Purchase Plan	1,888	1,228	632
Tax benefits from share-based compensation	1,216	6,555	8,355
Stock-based compensation expense	2,272	1,444	1,003
Balance, end of year	<u>\$ 298,378</u>	<u>\$ 291,120</u>	<u>\$ 262,742</u>
<b>RETAINED EARNINGS:</b>			
Balance, beginning of year	\$ 560,534	\$ 484,845	\$ 401,849
Net income	103,102	104,222	104,681
FASB Interpretation No. 48 transition amount	-	(3,850)	-
Dividends (2009-\$0.32 per share; 2008- \$0.28 per share; 2007-\$0.24 per share)	(26,903)	(24,683)	(21,685)
Balance, end of year	<u>\$ 636,733</u>	<u>\$ 560,534</u>	<u>\$ 484,845</u>
<b>TREASURY STOCK:</b>			
Balance, beginning of year	\$ (251,180)	\$ (150,184)	\$ (51,771)
Purchase of treasury shares	(58,405)	(100,996)	(98,413)
Balance, end of year	<u>\$ (309,585)</u>	<u>\$ (251,180)</u>	<u>\$ (150,184)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$ 626,506</b>	<b>\$ 601,451</b>	<b>\$ 598,365</b>

See notes to consolidated financial statements.

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

	YEAR ENDED JUNE 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 103,102	\$ 104,222	\$ 104,681
Adjustments to reconcile net income from operations to cash from operating activities:			
Depreciation	38,859	40,195	36,427
Amortization	25,288	21,811	14,527
Deferred income taxes	7,047	5,320	4,239
Expense for stock-based compensation	2,272	1,444	1,003

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Loss on property and equipment (including 6/30/08 loss on discontinued operations)	938	1,683	167
Other, net	(7)	(33)	(15)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	21,214	(2,913)	(28,853)
Prepaid expenses, prepaid cost of product, and other	1,969	9,670	(2,987)
Accounts payable	1,260	(4,951)	(3,050)
Accrued expenses	(2,430)	541	5,667
Income taxes	(14,867)	(1,088)	17,865
Deferred revenues	21,943	5,100	24,576
	<hr/>	<hr/>	<hr/>
Net cash from operating activities	206,588	181,001	174,247
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payment for acquisitions, net of cash acquired	(3,027)	(49,324)	(39,307)
Capital expenditures	(31,562)	(31,105)	(34,202)
Purchase of investments	(2,996)	(1,975)	(3,603)
Proceeds from sale of property and equipment	42	2,098	25
Proceeds from investments	3,000	2,000	4,810
Computer software developed	(24,684)	(23,736)	(20,743)
Other, net	0	(106)	109
	<hr/>	<hr/>	<hr/>
Net cash from investing activities	(59,227)	(102,148)	(92,911)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock upon exercise of stock options	2,720	19,165	28,580
Minimum tax withholding payments related to option exercises	(836)	-	-
Proceeds from sale of common stock, net	1,889	1,229	632
Borrowings under lines of credit	76,692	145,097	115,595
Repayments under lines of credit	(90,181)	(145,526)	(96,207)
Excess tax benefits from stock-based compensation	349	3,809	4,640
Purchase of treasury stock	(58,405)	(100,996)	(98,413)
Dividends paid	(26,903)	(24,683)	(21,685)
	<hr/>	<hr/>	<hr/>
Net cash from financing activities	(94,675)	(101,905)	(66,858)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 52,686</b>	<b>\$ (23,052)</b>	<b>\$ 14,478</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>\$ 65,565</b>	<b>\$ 88,617</b>	<b>\$ 74,139</b>
	<hr/>	<hr/>	<hr/>
	<b>\$ 118,251</b>	<b>\$ 65,565</b>	<b>\$ 88,617</b>

CASH AND CASH EQUIVALENTS, END OF  
YEAR

See notes to consolidated financial statements.

---

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE COMPANY

Jack Henry & Associates, Inc. and Subsidiaries ("JHA" or the "Company") is a leading 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 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 significant intercompany accounts and transactions have been eliminated.

USE OF ESTIMATES

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

REVENUE RECOGNITION

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

License Fee Revenue:

For software license agreements that do not require significant modification or customization of the software, the Company recognizes software license revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred, the license fee is fixed and determinable and collection is probable. The Company's software license agreements generally include multiple products and services or "elements." None of these elements are deemed to be essential to the functionality of the other elements. Statement of Position ("SOP") 97-2, "*Software Revenue Recognition*," as amended, generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on vendor-specific objective evidence ("VSOE") of fair value. Fair value is determined for license fees based upon the price charged when sold separately or, if the product is not yet sold separately, the price determined by management with relevant authority. In the event that we determine that

VSOE does not exist for one or more of the delivered elements of a software arrangement, but does exist for all of the undelivered elements, revenue is recognized using the residual method allowed by SOP 98-9, "Software Revenue Recognition, with Respect to Certain Transactions". Under the residual method, a residual amount of the total arrangement fee is recognized as revenue for the delivered elements after the established fair value of all undelivered elements has been deducted.

#### Support and Service Fee Revenue:

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

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

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

#### Hardware Revenue:

Hardware revenue is recognized upon delivery to the customer, when title and risk of loss are transferred. In most cases, we do not stock in inventory the hardware products we sell, but arrange for third-party suppliers to drop-ship the products to our customers on our behalf. Some of our hardware revenues are derived under "arrangements" as defined by SOP 97-2. To the extent hardware revenue is subject to SOP 97-2 and is not deemed essential to the functionality of any of the other elements to the arrangement, it is recognized based on VSOE of fair value at the time of delivery. For these transactions, the Company follows the guidance provided in Emerging Issues Task Force Issue ("EITF") No. 99-19, "*Reporting Revenue Gross as a Principal versus Net as an Agent.*" Based upon the indicators provided within this consensus, the Company records the revenue related to our drop-ship transactions at gross and the related costs are included in cost of hardware. The Company also remarkets maintenance contracts on hardware to our customers. Hardware maintenance revenue is recognized ratably over the agreement period.

#### PREPAID COST OF PRODUCT

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

#### DEFERRED REVENUES

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

#### COMPUTER SOFTWARE DEVELOPMENT

The Company capitalizes new product development costs incurred from the point at which technological feasibility has been established through the point at which the product is ready for general availability. Software development costs that are capitalized are evaluated on a product-by-product basis annually and are assigned an estimated economic life based on the type of product, market characteristics, and maturity of the market for that particular product. The Company's amortization policy for these capitalized costs is to amortize the costs in accordance with SFAS No. 86, "*Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*". Generally, these costs are amortized based on current and estimated future revenue from the product or on a straight-line basis, whichever yields greater amortization expense.

## CASH EQUIVALENTS

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

## INVESTMENTS

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

The amortized cost of held-to-maturity securities is \$1,000 and \$997 at June 30, 2009 and 2008, respectively. Fair values of these securities did not differ significantly from amortized cost due to the nature of the securities and minor interest rate fluctuations during the periods.

## PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

## COMPREHENSIVE INCOME

Comprehensive income for each of the years ended June 30, 2009, 2008 and 2007 equals the Company's net income.

## BUSINESS SEGMENT INFORMATION

In accordance with SFAS No. 131, *"Disclosure About Segments of an Enterprise and Related Information"*, the Company's operations are classified as two business segments: bank systems and services and credit union systems and services (see Note 14). Revenue by type of product and service is presented on the face of the consolidated statements of income. Substantially all the Company's revenues are derived from operations and assets located within the United States of America.

## COMMON STOCK

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves of short-term borrowings on its existing credit facility. The share repurchase program does not include specific price targets or timetables and

may be suspended at any time. At June 30, 2008, there were 11,301 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,690 additional shares. On August 25, 2008, the Company's Board of Directors approved a 5,000 share increase to the stock repurchase authorization. During fiscal 2009, the Company repurchased 3,106 treasury shares for \$58,405. The total cost of treasury shares at June 30, 2009 is \$309,585. At June 30, 2009, there were 14,407 shares in treasury stock and the Company had the authority to repurchase up to 5,584 additional shares.

## INCOME PER SHARE

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

## INCOME TAXES

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

On July 1, 2007, the Company adopted the provisions of FIN 48, which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, the Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, under FIN 48, interest and penalties expense are recognized on the full amount of deferred benefits for uncertain tax positions. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense.

## RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("SFAS") No. 157, "*Fair Value Measurements*" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and requires enhanced disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. Relative to SFAS 157, the FASB issued Staff Positions ("FSP") 157-1, 157-2, 157-3 and 157-4. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, "*Accounting for Leases*" ("SFAS 13"), and its related interpretive accounting pronouncements that address leasing transactions. FSP 157-2 delayed the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining fair value of a financial asset when the market for that financial asset is not active. FSP 157-4 provides guidelines for a broad interpretation of when to apply market-based fair value measurements, requiring judgment to determine when a market has become inactive and in determining fair values in markets that are no longer active. SFAS 157 was effective for the Company beginning on July 1, 2008. Its adoption did not have a material impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*," ("SFAS 141(R)") which replaces SFAS No. 141. SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquire and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users of the financial statements to evaluate the nature and financial effects of the business combination. Relative to SFAS

141(R), the FASB issued FSP 141(R)-1 on April 1, 2009. FSP 141(R)-1 eliminates the requirement under FAS 141(R) to record assets or liabilities at the acquisition date for noncontractual contingencies at fair value where it is deemed "more-likely-than-not" that an asset or liability would result. Under FSP 141(R)-1, such assets and liabilities would only need to be recorded where the fair value can be determined during the measurement period or where it is probable that an asset or liability exists at the acquisition date and the amount of fair value can be reasonably determined. SFAS 141(R) is effective for the Company on July 1, 2009. SFAS 141(R) will have an impact on the Company's accounting for business combinations on a prospective basis once adopted; however, the materiality of that impact cannot be determined at this time.

In April 2008, the FASB issued FSP FAS 142-3, "*Determination of the Useful Life of Intangible Assets*" ("FSP 142-3"). This pronouncement amends SFAS No. 142, regarding the factors that should be considered in developing the useful lives for intangible assets with renewal or extension provisions. FSP 142-3 requires an entity to consider its own historical experience in renewing or extending similar arrangements, regardless of whether those arrangements have explicit renewal or extension provisions, when determining the useful life of an intangible asset. In the absence of such experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for entity-specific factors. FSP 142-3 also requires an entity to disclose information regarding the extent to which the expected future cash flows associated with an intangible asset are affected by the entity's intent and/or ability to renew or extend the arrangement. FSP 142-3 will be effective for qualifying intangible assets acquired by the Company on or after July 1, 2009. The application of FSP 142-3 is not expected to have a material impact on the Company's financial statements; however, it could impact future transactions entered into by the Company.

In June 2009, the FASB issued SFAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*" ("SFAS 168"), which establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. SFAS 168 explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 will become effective in the first fiscal quarter of fiscal 2010 and is not expected to have a material impact on the Company's financial statements.

#### NOTE 2: FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values for held-to-maturity securities are based on quoted market prices. For all other financial instruments, including amounts receivable or payable and short-term and long-term borrowings, fair values approximate carrying value, based on the short-term nature of the assets and liabilities and the variability of the interest rates on the borrowings.

#### NOTE 3: PROPERTY AND EQUIPMENT

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

	June 30,		Estimated Useful Life
	2009	2008	
Land	\$ 24,411	\$ 24,411	
Land improvements	19,845	19,826	5-20 years
Buildings	99,400	97,594	25-30 years
Leasehold improvements	21,946	21,995	5-10 years <sup>(1)</sup>
Equipment and furniture	194,149	179,613	5-8 years

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Aircraft and equipment	40,060	38,874	8-10 years
Construction in progress	16,694	4,995	
	416,505	387,308	
Less accumulated depreciation	178,727	148,303	
Property and equipment, net	\$ 237,778	\$ 239,005	

(1)

Lesser of lease term or estimated useful life

The Company had material commitments to purchase property and equipment related to the construction of a new facility in Springfield, Missouri, totaling \$24,382 at June 30, 2009. There were no material commitments to purchase property and equipment at June 30, 2008. Property and equipment included \$273 and \$455 that was in accrued liabilities at June 30, 2009 and 2008, respectively. Also, during fiscal 2009, the Company acquired \$6,748 of computer equipment through a capital lease. These amounts were excluded from capital expenditures on the statement of cash flows.

NOTE 4: OTHER ASSETS

Changes in the carrying amount of goodwill for the years ended June 30, 2009 and 2008, by reportable segments, are:

	Banking Systems and Services	Credit Union Systems and Services	Total
Balance, as of July 1, 2007	\$ 224,065	\$ 24,798	\$ 248,863
Goodwill acquired during the year	40,510	-	40,510
	264,575	24,798	289,373
Balance, as of June 30, 2008	264,575	24,798	289,373
Goodwill acquired during the year	3,027	-	3,027
	267,602	24,798	292,400
Balance, as of June 30, 2009	\$ 267,602	\$ 24,798	\$ 292,400

The Banking Systems and Services segment additions for fiscal 2009 relate primarily to the ultimate resolution of contingent consideration amounts for the acquisitions of RPM Intelligence, LLC, and AudioTel Corporation. The additions for fiscal 2008 relate primarily to the acquisitions of Gladiator Technology Services, Inc. and AudioTel Corporation. See Note 13-Business Acquisitions for further details.

Information regarding other identifiable intangible assets is as follows:

June 30,					
2009			2008		
Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net



Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Customer relationships	\$ 126,244	\$ (70,794)	\$ 55,450	\$ 126,245	\$ (62,426)	\$ 63,819
Trade names	<u>3,999</u>	<u>-</u>	<u>3,999</u>	<u>3,999</u>	<u>-</u>	<u>3,999</u>
Totals	\$ 130,243	\$ (70,794)	\$ 59,449	\$ 130,244	\$ (62,426)	\$ 67,818

Trade names have been determined to have indefinite lives and are not amortized. Customer relationships have lives ranging from five to 20 years.

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

Following is an analysis of the computer software capitalized:

	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Total</u>
Balance, July 1, 2007	\$ 77,367	\$ (18,177)	\$ 59,190
Acquired software	5,728	-	5,728
Capitalized development cost	23,736	-	23,736
Disposals	(2,199)	1,993	(206)
Amortization expense	-	(13,505)	(13,505)
	<u>104,632</u>	<u>(29,689)</u>	<u>74,943</u>
Balance, June 30, 2008	104,632	(29,689)	74,943
Acquired software	-	-	-
Capitalized development cost	24,684	-	24,684
Disposals	(45)	17	(28)
Amortization expense	-	(16,920)	(16,920)
	<u>129,271</u>	<u>(46,592)</u>	<u>82,679</u>
Balance, June 30, 2009	\$ 129,271	\$ (46,592)	\$ 82,679

Amortization expense for all intangible assets was \$25,288, \$21,811 and \$14,527 for the fiscal years ended June 30, 2009, 2008, and 2007, respectively. The estimated aggregate future amortization expense for each of the next five years for all intangible assets remaining as of June 30, 2009, is as follows:

Year	Customer Relationships	Software	Total
	<u>          </u>	<u>          </u>	<u>          </u>
2010	8,236	17,596	25,832
2011	7,673	16,876	24,549
2012	6,647	12,688	19,335
2013	5,282	6,690	11,972
2014	5,282	2,716	7,998

NOTE 5: DEBT

The Company renewed a bank credit line on April 28, 2008 which provides for funding of up to \$5,000 and bears interest at the bank's prime rate less 1% (2.25%)

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

at June 30, 2009). The credit line matures on April 29, 2010. At June 30, 2009, no amount was outstanding.

The Company renewed a credit line on March 7, 2009 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25%

at June 30, 2009). The credit line expires March 7, 2010 and is secured by \$1,000 of investments. There were no outstanding amounts at June 30, 2009.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000, which may be increased by the Company at any time until maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured revolving credit line terminates May 31, 2012. At June 30, 2009, the outstanding revolving bank credit facility balance was \$60,000. This outstanding balance bears interest at a weighted average rate of 0.73%. This credit line is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of June 30, 2009, the Company was in compliance with all such covenants.

The Company has entered into various capital lease obligations for the use of certain computer equipment. Included in property and equipment are related assets of \$6,907, less accumulated depreciation of \$877. At June 30, 2009, \$3,461 was outstanding, all of which will be maturing in the next twelve months.

The Company paid interest of \$1,606, \$2,521, and \$1,975 in 2009, 2008, and 2007 respectively. During fiscal 2009, the Company incurred a total of \$1,468 of interest, \$111 of which was capitalized.

### NOTE 6: LEASE COMMITMENTS

The Company leases certain property under operating leases which expire over the next 9 years, but certain of the leases contain options to extend the lease term. All lease payments are based on the lapse of time but include, in some cases, payments for operating expenses and property taxes. There are no purchase options on real estate leases at this time, but most real estate leases have one or more renewal options. Certain leases on real estate are subject to annual escalations for increases in operating expenses and property taxes.

As of June 30, 2009, net future minimum lease payments are as follows:

Years Ending June 30,	Lease Payments
2010	\$ 8,759
2011	5,053
2012	2,941
2013	2,392
2014	2,127
Thereafter	3,388
Total	\$ 24,660

Rent expense was \$8,314, \$7,895, and \$5,797 in 2009, 2008, and 2007, respectively.

### NOTE 7: INCOME TAXES

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

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Year ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current:			
Federal	\$ 39,616	\$ 48,472	\$ 46,369
State	7,527	5,347	5,425
Deferred:			
Federal	7,345	4,972	4,080
State	(280)	348	159
	<u>\$ 54,208</u>	<u>\$ 59,139</u>	<u>\$ 56,033</u>

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

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Deferred revenue	\$ 577	\$ 6,286
Expense reserves (bad debts, insurance, franchise tax and vacation)	1,834	2,670
Capital loss carryforward	-	2,168
Net operating loss carryforwards	401	-
Other, net	2,273	2,580
	<u>5,085</u>	<u>13,704</u>
Deferred tax liabilities:		
Accelerated tax depreciation	(20,579)	(20,105)
Accelerated tax amortization	(47,995)	(45,359)
Other, net	(418)	(5,360)
	<u>(68,992)</u>	<u>(70,824)</u>
Net deferred tax liability before valuation allowance	(63,907)	(57,120)
Valuation allowance	(277)	-
Net deferred tax liability	<u>\$ (64,184)</u>	<u>\$ (57,120)</u>

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

	June 30,	
	<u>2009</u>	<u>2008</u>
Deferred income taxes (current)	\$ 882	\$ 4,590
Deferred income taxes (long-term)	(65,066)	(61,710)
	<u>\$ (64,184)</u>	<u>\$ (57,120)</u>

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

	Year Ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Computed "expected" tax expense	35.0%	35.0%	35.0%
Increase (reduction) in taxes resulting from:			
State income taxes,			
net of federal income tax benefits	2.7%	2.3%	2.3%
Research and development credit	-3.0%	-1.0%	-2.7%
Permanent book/tax differences	-0.4%	-0.3%	0.0%
Valuation Allowance	0.2%	0.0%	0.0%
Other (net)	0.0%	0.0%	0.1%
	<u>34.5%</u>	<u>36.0%</u>	<u>34.7%</u>

The effective income tax rate for fiscal year 2009 decreased from the fiscal year 2008 tax rate due primarily to the renewal of the Research and Experimentation Credit ("R&E Credit"), during fiscal year 2009, retroactive to January 1, 2008. Renewal of this credit had a significant tax benefit in fiscal year 2009 since retroactive renewal required the recording of an additional six months of credit during fiscal year 2009 related to fiscal year 2008.

As of June 30, 2009, the Company had net operating loss carryforwards of \$401. These losses have varying expiration dates, ranging from 2012 to 2028. Based on state tax rules which restrict our usage of these losses, we believe it is more likely than not that \$277 of these losses will expire unutilized. Accordingly, a valuation allowance of \$277 has been recorded against these assets as of June 30, 2009.

The Company paid income taxes of \$62,965, \$51,709, and \$28,887 in 2009, 2008, and 2007, respectively.

Adopting FIN 48 had the following impact on our financial statements: decreased retained earnings by \$3,850 and increased long term liabilities by \$3,850.

At June 30, 2008, the Company had \$4,055 of unrecognized tax benefits. At June 30, 2009, the Company had \$5,518 of unrecognized tax benefits, of which, \$4,163, if recognized, would affect our effective tax rate. We had accrued interest and penalties of \$732 and \$738 related to uncertain tax positions at June 30, 2009 and 2008, respectively.

A reconciliation of the unrecognized tax benefits for the years ended June 30, 2009 and 2008 follows:

	Unrecognized Tax Benefits
	<hr/>
Balance at July 1, 2007	\$ 5,838
Additions for current year tax positions	671
Reductions for prior year tax positions	(2,131)
Reductions related to expirations of statute of limitations	(323)
	<hr/>
Balance at June 30, 2008	4,055
Additions for current year tax positions	1,044
Additions for prior year tax positions	2,052
Reductions for prior year tax positions	(110)
Settlements	(936)
Reductions related to expirations of statute of limitations	(587)
	<hr/>
Balance at June 30, 2009	\$ 5,518

During the fiscal year ended June 30, 2008, the Internal Revenue Service concluded its examination of the Company's U.S. federal income tax returns for fiscal years ended June 2005 through 2006. However, the U.S. federal and state income tax returns for June 30, 2006 and all subsequent fiscal years still remain subject to examination as of June 30, 2009 under statute of limitations rules. We anticipate potential changes resulting from the expiration of statutes of limitations of up to \$740 could reduce the unrecognized tax benefits balance within twelve months of June 30, 2009.

#### NOTE 8: INDUSTRY AND SUPPLIER CONCENTRATIONS

The Company sells its products to banks, credit unions, and financial institutions throughout the United States and generally does not require collateral. All billings to customers are due 30 days from date of billing. Reserves (which are insignificant at June 30, 2009, 2008 and 2007) are maintained for potential credit losses.

In addition, the Company purchases most of its computer hardware and related maintenance for resale in relation to installation of JHA software systems from two suppliers.

There are a limited number of hardware suppliers for these required items. If these relationships were terminated, it could have a significant negative impact on the future operations of the Company.

#### NOTE 9: STOCK BASED COMPENSATION PLANS

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

##### 1996 SOP

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

## 2005 NSOP

The NSOP was adopted by the Company on September 23, 2005, for its outside directors. Generally, options are exercisable beginning six months after grant at an exercise price equal to 100% of the fair market value of the stock at the grant date. For individuals who have served less than four continuous years, 25% of all options will vest after one year of service, 50% shall vest after two years, and 75% shall vest after three years of service on the Board. The options terminate upon surrender of the option, upon the expiration of one year following notification of a deceased optionee, or 10 years after grant. 700 shares of common stock have been reserved for issuance under this plan with a maximum of 100 for each director. As of June 30, 2009, there were 530 shares available for future grants under the plan.

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

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Outstanding July 1, 2006	7,700	\$15.34	
Granted	30	21.79	
Forfeited	(123)	21.22	
Exercised	(2,218)	12.90	
	<u>                    </u>	<u>                    </u>	
Outstanding June 30, 2007	5,389	16.24	
Granted	50	28.52	
Forfeited	(8)	24.64	
Exercised	(1,454)	13.38	
Outstanding June 30, 2008	3,977	17.42	
	<u>                    </u>	<u>                    </u>	
Granted	50	17.45	
Forfeited	(19)	20.77	
Exercised	(248)	12.28	
	<u>                    </u>	<u>                    </u>	
Outstanding June 30, 2009	3,760	\$17.75	\$15,468
Vested and Expected to Vest June 30, 2009	3,760	\$17.75	\$15,468
Exercisable June 30, 2009	3,729	\$17.71	\$15,421

The weighted-average fair value of options granted during fiscal 2009, fiscal 2008 and fiscal 2007 was \$7.87, \$11.83, and \$10.43, respectively. The only options granted during fiscal years 2009, 2008 and 2007 were to non-employee members of the Company's board of directors. The assumptions used in estimating fair value and resulting compensation expenses are as follows:

	Year Ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Weighted Average Assumptions:			
Expected life (years)	3.72	7.41	7.41

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Volatility	30%	28%	37%
Risk free interest rate	1.4%	4.1%	4.7%
Dividend yield	1.72%	0.98%	0.96%

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

Our pre-tax operating income for the years ended June 30, 2009, 2008 and 2007 includes \$2,272, \$1,444

and \$1,003 of stock-based compensation costs, respectively. The total cost for the year ended June 30, 2009 and 2008 includes \$1,620 and \$871 relating to the restricted stock plan, respectively. There was no such cost for 2007.

As of June 30, 2009, there was \$77 of total unrecognized compensation costs related to stock options that have not yet vested. These costs are expected to be recognized over a weighted average period of 0.73 years. The weighted average remaining contractual term on options currently exercisable as of June 30, 2009 was 2.32 years.

Following is an analysis of stock options outstanding and exercisable as of June 30, 2009:

Range of Exercise Prices	Shares		Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	
	Outstanding	Exercisable	Outstanding	Outstanding	Exercisable
\$ 9.44 - \$10.83	25	25	0.28	\$ 9.44	\$ 9.44
\$10.84 - \$11.50	865	865	3.77	10.84	10.84
\$11.51 - \$16.87	55	55	3.21	13.04	13.04
\$16.88 - \$17.38	1,398	1,398	0.76	16.88	16.88
\$17.39 - \$21.52	573	557	3.75	19.58	19.63
\$21.53 - \$25.71	407	404	2.78	23.33	23.34
\$25.72 - \$28.62	395	383	2.67	27.54	27.51
\$28.63 - \$29.62	29	29	1.68	28.88	28.88
\$29.63 - \$29.99	10	10	1.43	29.63	29.63
\$30.00 - \$30.00	3	3	1.93	30.00	30.00
<b>\$ 9.44 - \$30.00</b>	<b>3,760</b>	<b>3,729</b>	<b>2.37</b>	<b>\$ 17.75</b>	<b>\$ 17.71</b>

The income tax benefits from stock option exercises totaled \$1,233 for the year ended June 30, 2009.

The total intrinsic value of options exercised was \$1,999, \$18,010 and \$22,643 for the fiscal years ended June 30, 2009, 2008 and 2007, respectively.

#### RESTRICTED STOCK PLAN

The Restricted Stock Plan was adopted by the Company on November 1, 2005, for its employees. Up to 3,000 shares of common stock are available for issuance under the plan. Upon issuance, shares of restricted stock are subject to

forfeiture and to restrictions which limit the sale or transfer of the shares during the restriction period. The restrictions will be lifted over periods ranging from three to seven years from grant date. On certain awards, the restrictions may be lifted sooner if certain targets for shareholder return are met.

The following table summarizes non-vested share awards as of June 30, 2009, as well as activity for the year then ended:

	Shares	Weighted Average Grant Date Fair Value
	<u>          </u>	<u>          </u>
Non-vested shares at July 1, 2007	-	\$ -
Granted	133	24.86
Vested	-	-
Forfeited	(3)	24.50
	<u>          </u>	<u>          </u>
Non-vested shares at June 30, 2008	130	24.87
Granted	146	19.04
Vested	(9)	25.60
Forfeited	-	-
	<u>          </u>	<u>          </u>
Non-vested shares at June 30, 2009	267	\$ 21.66

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

At June 30, 2009, there was \$3,567 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 2.50 years.

#### NOTE 10: EARNINGS PER SHARE

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

	Year Ended June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Income from continuing operations	\$ 103,102	\$ 105,287	\$ 105,644
Discontinued Operations	-	(1,065)	(963)
	<u>          </u>	<u>          </u>	<u>          </u>
Net Income	\$ 103,102	\$ 104,222	\$ 104,681
Common share information:			
Weighted average shares outstanding for basic EPS	84,118	88,270	90,155
Dilutive effect of stock options	712	1,432	1,877
	<u>          </u>	<u>          </u>	<u>          </u>
Shares for diluted EPS	84,830	89,702	92,032



Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Basic Earnings per Share:			
Income from continuing operations	\$ 1.23	\$ 1.19	\$ 1.17
Discontinued operations	-	(0.01)	(0.01)
	<hr/>	<hr/>	<hr/>
Basic Earnings per Share	\$ 1.23	\$ 1.18	\$ 1.16
Diluted Earnings per Share:			
Income from continuing operations	\$ 1.22	\$ 1.17	\$ 1.15
Discontinued operations	-	(0.01)	(0.01)
	<hr/>	<hr/>	<hr/>
Diluted Earnings per Share	\$ 1.22	\$ 1.16	\$ 1.14

Stock options to purchase approximately 1,267 shares for fiscal 2009, 536 shares for fiscal 2008, and 772 shares for fiscal 2007, were not dilutive and therefore, were not included in the computations of diluted income per common share amounts.

NOTE 11: EMPLOYEE BENEFIT PLANS

The Company established an employee stock purchase plan in 2006. The plan originally allowed the majority of employees the opportunity to directly purchase shares of the Company at a 5% discount. On October 30, 2007, the shareholders approved an amendment to the plan that increased the discount to 15% beginning January 1, 2008.

With this amendment, the plan no longer met the criteria as a non-compensatory plan. As a result, beginning January 1, 2008, the Company began recording the total dollar value of the stock discount given to employees under the plan as expense. Total expense recorded by the Company under the plan for the year ended June 30, 2009 and 2008 was \$333 and \$125, respectively.

The Company has a defined contribution plan for its employees, the 401(k) Retirement Savings Plan (the "Plan"). The Plan is subject to the Employee Retirement Income Security Act of 1975 ("ERISA") as amended. Under the Plan, the Company matches 100% of full time employee contributions up to 5% of compensation subject to a maximum of \$5 per year. Employees must be 18 years of age and be employed for at least six months. The Company has the option of making a discretionary contribution; however, none has been made for any of the three most recent fiscal years. The total matching contributions for the Plan were \$8,341, \$7,937, and \$7,148 for fiscal 2009, 2008, and 2007, respectively.

NOTE 12: DISCONTINUED OPERATIONS

On June 30, 2008, the Company sold its insurance agency outsourcing business, Banc Insurance Services, Inc. ("BIS") and Banc Insurance Agency, Inc. ("BIA"), to the division's management team and a private equity group for a nominal amount. The transaction resulted in a pre-tax loss of \$2,718.

In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," the results of operations of this business for the current and prior periods have been reported as discontinued operations. The divestiture of this business was made as a result of poorer than expected operating results.

The insurance agency outsourcing business provided turnkey outsourced insurance agency solutions for financial institutions. Operations of the business, which were formerly included in the Bank Systems and Services segment, are summarized as follows:

Year Ended June 30,	
<hr/>	<hr/>
2008	2007
<hr/>	<hr/>

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

Revenue	\$ 1,680	\$ 1,595
Loss before income taxes	(1,457)	(1,474)
Income tax benefit	536	511
	<hr/>	<hr/>
Net loss from discontinued operations	(921)	(963)
Less loss on disposal, net of income taxes	(144)	-
	<hr/>	<hr/>
Loss on discontinued operations	\$ (1,065)	\$ (963)

Assets and liabilities of the insurance agency outsourcing business before disposal, were as follows:

	June 30, 2008
	<hr/>
Cash	\$ 656
Accounts receivable	688
Other assets	90
Property and equipment, net	1,007
	<hr/>
Total assets	2,441
Accounts payable and other	194
	<hr/>
Total liabilities	\$ 194

In connection with the sale, the Company accrued \$471 lease loss, net of estimated subleases.

NOTE 13: BUSINESS ACQUISITIONS

Fiscal 2008 Acquisitions:

On July 1, 2007, the Company acquired all of the capital stock of Gladiator Technology Services, Inc. ("Gladiator"). Gladiator is a provider of technology security services for financial institutions. The purchase price for Gladiator, \$17,425 paid in cash, was allocated to the assets and liabilities acquired based on then-estimated fair values at the acquisition date, resulting in an allocation of \$(729) to working capital, \$799 to property and equipment, \$4,859 to customer relationships, and \$12,496 to goodwill. The acquired goodwill has been allocated to the banking systems and services segment. The Company and the former shareholders of Gladiator jointly made an IRC Section 338(h)(10) election for this acquisition. This election allows treatment of this acquisition as an asset acquisition, which permits the Company to amortize the customer relationships and goodwill for tax purposes.

On October 1, 2007, the Company acquired all of the capital stock of AudioTel Corporation ("AudioTel"). AudioTel is a provider of remittance, merchant capture, check imaging, document imaging and management, and telephone and internet banking solutions. The purchase price for AudioTel, \$32,092 paid in cash, was preliminarily allocated to the assets and liabilities acquired based upon then-estimated fair values at the acquisition date, resulting in an allocation of \$(2,634) to working capital, \$528 to property and equipment, \$6,017 to customer relationships, \$5,728 to capitalized software, \$(4,346) to deferred taxes, and \$26,799 to goodwill. As part of the purchase agreement, \$3,000

of consideration was contingent upon the achievement of operating income targets over the two-year period ending on September 30, 2009. During the third quarter of fiscal 2009, the Company and the former shareholders of AudioTel agreed to amend the purchase agreement to fully settle the contingency for \$15. The acquired goodwill has been allocated to the banking systems and services segment and is non-deductible for tax purposes.

#### Fiscal 2007 Acquisition:

On November 1, 2006, the Company acquired all of the capital stock of Margin Maximizer Group, Inc., which does business as US Banking Alliance ("USBA"). USBA is a leading provider of loan and deposit pricing software and related consulting services to banks and credit unions. The purchase price for USBA, \$34,006 paid in cash, was allocated to the assets and liabilities acquired based on then estimated fair values at the acquisition date, resulting in an allocation of \$(2,147) to working capital, \$69 to property and equipment, \$2,515 to capitalized software, \$4,705 to customer relationships, and \$28,864 to goodwill. The capitalized software and customer relationships have weighted-average useful lives of approximately 5 years. The acquired goodwill has been allocated to the bank systems and services segment. The Company and the former shareholders of Margin Maximizer Group, Inc. jointly made a Section 338(h)(10) election for this acquisition. This election allows treatment of this acquisition as an asset acquisition, which permits the Company to amortize the capitalized software, customer relationships and goodwill for tax purposes. The results of USBA's operations have been included with the Company's from the date of acquisition, November 1, 2006, to the end of the period.

#### Fiscal 2005 Acquisition:

On January 1, 2005, the Company acquired all of the membership interests in RPM Intelligence, LLC, doing business as Stratika ("Stratika"). Stratika provides customer and product profitability solutions for financial institutions. As part of the original agreement, there was contingent purchase consideration of up to \$9,752 that may have been paid to the former members based upon the net operating income of Stratika. In fiscal 2006, \$248 was paid to the former members of Stratika as part of this contingent consideration. During the first quarter of fiscal 2009, the Company paid \$3,000 in full settlement of the remaining contingency. These amounts were included in goodwill. The acquired goodwill has been allocated to the bank segment and is deductible for federal income tax.

The accompanying consolidated statements of income for the fiscal years ended June 30, 2008 and 2007 do not include any revenues and expenses related to these acquisitions prior to the respective closing dates of each acquisition. The following unaudited pro forma consolidated financial information is presented as if these acquisitions had occurred at the beginning of the periods presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if these acquisitions had actually occurred during those periods, or the results that may be obtained in the future as a result of these acquisitions.

Pro Forma (unaudited)	Year Ended June 30,	
	<u>2008</u>	<u>2007</u>
Revenue	\$ 746,041	\$ 685,647
Gross profit	\$ 308,565	\$ 298,488
Income from continuing operations	\$ 105,373	\$ 107,296
Earnings per share - continuing operations	\$ 1.17	\$ 1.17
Diluted shares	89,702	92,032
Earnings per share - continuing operations	\$ 1.19	\$ 1.19

Basic shares 88,270 90,155

## NOTE 14: BUSINESS SEGMENT INFORMATION

The Company is a leading provider of integrated computer systems that perform data processing (available for in-house or service bureau installations) for banks and credit unions. The Company's operations are classified into two business segments: bank systems and services ("Bank") and credit union systems and services ("Credit Union"). The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue. The following amounts have been adjusted to exclude discontinued operations (See Note 12):

## For the Year Ended June 30, 2009

	<u>Bank</u>	<u>Credit Union</u>	<u>Total</u>
<b>REVENUE</b>			
License	\$ 45,169	\$ 13,265	\$ 58,434
Support and service	514,748	99,494	614,242
Hardware	57,794	15,123	72,917
	<hr/>	<hr/>	<hr/>
Total	617,711	127,882	745,593
	<hr/>	<hr/>	<hr/>
<b>COST OF SALES</b>			
Cost of license	6,113	772	6,885
Cost of support and service	321,489	64,348	385,837
Cost of hardware	42,297	11,175	53,472
	<hr/>	<hr/>	<hr/>
Total	369,899	76,295	446,194
	<hr/>	<hr/>	<hr/>
<b>GROSS PROFIT</b>	<b>\$ 247,812</b>	<b>\$ 51,587</b>	<b>\$ 299,399</b>

## For the Year Ended June 30, 2008

	<u>Bank</u>	<u>Credit Union</u>	<u>Total</u>
<b>REVENUE</b>			
License	\$ 52,528	\$ 21,025	\$ 73,553
Support and service	495,687	84,647	580,334
Hardware	68,175	20,864	89,039
	<hr/>	<hr/>	<hr/>
Total	616,390	126,536	742,926
	<hr/>	<hr/>	<hr/>
<b>COST OF SALES</b>			
Cost of license	5,376	1,322	6,698
Cost of support and service	305,640	58,500	364,140
Cost of hardware	49,504	15,358	64,862
	<hr/>	<hr/>	<hr/>
Total	360,520	75,180	435,700

	_____	_____	_____
GROSS PROFIT	\$ 255,870	\$ 51,356	\$ 307,226

For the Year Ended June 30, 2007

	<u>Bank</u>	<u>Credit Union</u>	<u>Total</u>
REVENUE			
License	\$ 60,683	\$ 15,720	\$ 76,403
Support and service	425,912	75,810	501,722
Hardware	69,266	19,076	88,342
	_____	_____	_____
Total	555,861	110,606	666,467
	_____	_____	_____
COST OF SALES			
Cost of license	4,103	174	4,277
Cost of support and service	255,743	54,176	309,919
Cost of hardware	51,227	14,242	65,469
	_____	_____	_____
Total	311,073	68,592	379,665
	_____	_____	_____
GROSS PROFIT	\$ 244,788	\$ 42,014	\$ 286,802

For the Year Ended June 30,

2009

2008

2007

Depreciation expense, net

Bank systems and services

\$  
36,816

\$  
37,970

	\$
	34,219
Credit Unions systems and services	
	2,043
	2,225
	2,208
<hr/>	
<hr/>	
<hr/>	
Total	
	\$
	38,859
	\$
	40,195
	\$
	36,427
Amortization expense, net	
Bank systems and services	
	\$
	22,779
	\$
	19,580
	\$
	12,070
Credit Unions systems and services	
	2,509
	2,231
	2,457
	70

---

---

---

Total

\$

25,288

\$

21,811

\$

14,527

Capital expenditures

Bank systems and services

\$

30,752

\$

30,994

\$

33,510

Credit Unions systems and services

810

111

692

---

---

---

Total

\$

31,562

\$

71

31,105

\$

34,202

## For the Year Ended June 30,

	<u>2009</u>	<u>2008</u>
Property and equipment, net		
Bank systems and services	\$ 208,488	\$ 208,288
Credit Unions systems and services	29,290	30,717
	<hr/>	<hr/>
Total	\$ 237,778	\$ 239,005
Identified intangible assets, net		
Bank systems and services	\$ 389,252	\$ 385,671
Credit Unions systems and services	45,276	46,463
	<hr/>	<hr/>
Total	\$ 434,528	\$ 432,134

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

## NOTE 15: SUBSEQUENT EVENTS

In accordance with SFAS 165, *Subsequent Events*, the Company has evaluated any significant events occurring from the date of these financial statements through August 28, 2009 the date they were issued. The effects of any such events upon conditions existing as of the balance sheet date have been reflected within the financial statements to the extent that the effects were material. Any significant events occurring after the balance sheet date that do not relate to conditions existing as of that date are disclosed below.

On August 17, 2009, the Company announced that it had entered into a definitive agreement to acquire Goldleaf Financial Solutions, Inc. ("Goldleaf"), a provider of integrated technology-based solutions designed to improve the performance of financial institutions. Goldleaf's shareholders will receive \$0.98 per share in cash in exchange for their shares. In addition, the Company will retire certain of Goldleaf's outstanding debt and accrued interest obligations, which is anticipated to equal approximately \$42,000 at closing. The Goldleaf Board of Directors has unanimously approved the merger and will recommend that Goldleaf shareholders approve the merger. The transaction, which is expected to be completed by the end of the Company's first fiscal quarter or early in the second fiscal quarter, is subject to the approval of Goldleaf's shareholders and customary closing conditions.

On August 24, 2009, the Company's Board of Directors declared a quarterly cash dividend of \$0.085 per share of common stock, payable on September 17, 2009 to shareholders of record on September 4, 2009.

## QUARTERLY FINANCIAL INFORMATION (unaudited)

For the Year Ended June 30, 2009



Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

	<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>	<u>Quarter 4</u>	<u>Total</u>
<b>REVENUE</b>					
License	\$ 13,294	\$ 14,860	\$ 12,730	\$ 17,550	\$ 58,434
Support and service	151,947	155,053	151,839	155,403	614,242
Hardware	17,857	20,291	15,839	18,930	72,917
	<u>183,098</u>	<u>190,204</u>	<u>180,408</u>	<u>191,883</u>	<u>745,593</u>
<b>COST OF SALES</b>					
Cost of license	1,089	2,052	1,436	2,308	6,885
Cost of support and service	96,132	96,502	96,732	96,471	385,837
Cost of hardware	13,348	14,277	12,002	13,845	53,472
	<u>110,569</u>	<u>112,831</u>	<u>110,170</u>	<u>112,624</u>	<u>446,194</u>
<b>GROSS PROFIT</b>	72,529	77,373	70,238	79,259	299,399
<b>OPERATING EXPENSES</b>					
Selling and marketing	13,932	13,845	12,873	14,281	54,931
Research and development	11,546	10,191	10,694	10,470	42,901
General and administrative	11,459	11,725	9,595	10,902	43,681
	<u>36,937</u>	<u>35,761</u>	<u>33,162</u>	<u>35,653</u>	<u>141,513</u>
<b>OPERATING INCOME</b>	35,592	41,612	37,076	43,606	157,886
<b>INTEREST INCOME (EXPENSE)</b>					
Interest income	563	146	56	16	781
Interest expense	(427)	(524)	(241)	(165)	(1,357)
	<u>136</u>	<u>(378)</u>	<u>(185)</u>	<u>(149)</u>	<u>(576)</u>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	35,728	41,234	36,891	43,457	157,310
<b>PROVISION FOR INCOME TAXES</b>	13,219	13,249	12,089	15,651	54,208
<b>INCOME FROM CONTINUING OPERATIONS</b>	22,509	27,985	24,802	27,806	103,102
<b>DISCONTINUED OPERATIONS</b>					
Loss from operations of discontinued operations	-	-	-	-	-
Income tax benefit	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss on discontinued operations	-	-	-	-	-

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

NET INCOME	\$ 22,509	\$ 27,985	\$ 24,802	\$ 27,806	\$ 103,102
Continuing operations	\$ 0.26	\$ 0.33	\$ 0.30	\$ 0.33	\$ 1.22
Discontinued operations	-	-	-	-	-
Diluted net income per share	\$ 0.26	\$ 0.33	\$ 0.30	\$ 0.33	\$ 1.22
Diluted weighted average shares Outstanding	86,622	84,958	83,480	84,261	84,830
Continuing operations	\$ 0.26	\$ 0.33	\$ 0.30	\$ 0.33	\$ 1.23
Discontinued operations	-	-	-	-	-
Basic net income per share	\$ 0.26	\$ 0.33	\$ 0.30	\$ 0.33	\$ 1.23
Basic weighted average shares Outstanding	85,744	84,314	82,873	83,541	84,118

QUARTERLY FINANCIAL INFORMATION (unaudited)

For the Year Ended June 30, 2008

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
REVENUE					
License	\$ 13,522	\$ 23,294	\$ 18,441	\$ 18,296	\$ 73,553
Support and service	137,912	144,979	148,772	148,671	580,334
Hardware	23,442	23,596	20,267	21,734	89,039
Total	174,876	191,869	187,480	188,701	742,926
COST OF SALES					
Cost of license	770	1,770	1,739	2,419	6,698
Cost of support and service	87,206	88,781	93,871	94,282	364,140
Cost of hardware	17,298	16,352	14,875	16,337	64,862
Total	105,274	106,903	110,485	113,038	435,700
GROSS PROFIT	69,602	84,966	76,995	75,663	307,226
OPERATING EXPENSES					
Selling and marketing	13,680	13,803	13,597	14,836	55,916
Research and development	9,959	11,404	11,340	10,623	43,326
General and administrative	9,808	13,463	9,514	10,990	43,775
Total	33,447	38,670	34,451	36,449	143,017

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

OPERATING INCOME	36,155	46,296	42,544	39,214	164,209
INTEREST INCOME (EXPENSE)					
Interest income	1,349	339	267	190	2,145
Interest expense	(83)	(104)	(583)	(1,158)	(1,928)
Total	<u>1,266</u>	<u>235</u>	<u>(316)</u>	<u>(968)</u>	<u>217</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	37,421	46,531	42,228	38,246	164,426
PROVISION FOR INCOME TAXES	<u>13,658</u>	<u>17,101</u>	<u>15,430</u>	<u>12,950</u>	<u>59,139</u>
INCOME FROM CONTINUING OPERATIONS	23,763	29,430	26,798	25,296	105,287
DISCONTINUED OPERATIONS					
Loss from operations of discontinued operations	(352)	(440)	(293)	(3,090)	(4,175)
Income tax benefit	<u>128</u>	<u>161</u>	<u>107</u>	<u>2,714</u>	<u>3,110</u>
Loss on discontinued operations	<u>(224)</u>	<u>(279)</u>	<u>(186)</u>	<u>(376)</u>	<u>(1,065)</u>
NET INCOME	\$ 23,539	\$ 29,151	\$ 26,612	\$ 24,920	\$ 104,222
Continuing operations	\$ 0.26	\$ 0.32	\$ 0.30	\$ 0.29	\$ 1.17
Discontinued operations	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.01)</u>
Diluted net income per share	\$ 0.26	\$ 0.32	\$ 0.30	\$ 0.28	\$ 1.16
Diluted weighted average shares					
Outstanding	90,833	90,922	88,907	88,145	89,702
Continuing operations *	\$ 0.27	\$ 0.33	\$ 0.31	\$ 0.29	\$ 1.19
Discontinued operations *	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.01)</u>
Basic net income per share	\$ 0.26	\$ 0.33	\$ 0.30	\$ 0.29	\$ 1.18
Basic weighted average shares					
Outstanding	89,168	89,393	87,615	86,902	88,270

\* Amounts may not add due to rounding

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

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

The Management's Report on Internal Control over Financial Reporting required by this Item 9A is in Item 8, "Financial Statements and Supplementary Data." Deloitte & Touche LLP has audited our internal control over financial reporting as of June 30, 2009; their report is included in Item 8 of this Form 10K.

During the fiscal quarter ending June 30, 2009, there has been no change in internal control over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

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

Item 9B. Other Information

None.

---

PART III

Item 10. Directors, Executive Officers and Corporate Governance

See the information under the captions "Election of Directors", "Corporate Governance", "Audit Committee Report", "Executive Officers and Significant Employees" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for our 2009 Annual Meeting of Stockholders which is incorporated herein by reference.

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

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

Item 13. Certain Relationships and Related Transactions, and Director Independence

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Income for the Years Ended June 30, 2009, 2008 and 2007
- Consolidated Balance Sheets as of June 30, 2009 and 2008
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended June 30, 2009, 2008 and 2007
- Consolidated Statements of Cash Flows for the Years Ended June 30, 2009, 2008 and 2007
- Notes to the Consolidated Financial Statements

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

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

(3) See "Index to Exhibits" set forth below.

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

Index to Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger among Jack Henry & Associates, Inc., Peachtree Acquisition Corporation and Goldleaf Financial Solutions, Inc. attached as Exhibit 2.1 to the Company's Current Report on Form 8-K filed August 17, 2009.
3.1.7	Restated Certificate of Incorporation, attached as Exhibit 3.1.7 to the Company's Annual Report on Form 10-K for the Year ended June 30, 2003.

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

- 3.2.2 Restated and Amended Bylaws, attached as Exhibit 3.2.2 to the Company's Current Report on Form 8-K filed November 13, 2008.
- 10.3 The Company's 1995 Non-Qualified Stock Option Plan, attached as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the Year Ended June 30, 1996.
- 10.8 Form of Indemnity Agreement which has been entered into as of August 27, 1996, between the Company and each of its Directors and Executive Officers, attached as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the Year Ended June 30, 1996.
- 10.9 The Company's 1996 Stock Option Plan, attached as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the Year Ended June 30, 1997.
- 10.20 Credit Agreement with Wachovia Bank, National Association as Administrative Agent, attached as Exhibit 10.20 to the Company's Current Report on Form 8-K filed April 21, 2005.
- 10.21 Amendment to the Company's 1996 Stock Option Plan, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 5, 2005.
- 10.27 The Company's Restricted Stock Plan, attached as Exhibit 10.27 to the Company's Annual Report on Form 10-K filed September 12, 2006.
- 10.28 The Company's 2005 Non-Qualified Stock Option Plan, attached as Exhibit 10.28 to the Company's Annual Report on Form 10-K filed September 12, 2006.
- 10.29 Jack Henry & Associates, Inc. 2006 Employee Stock Purchase Plan, attached as Exhibit 10.29 to the Company's Current Report on Form 8-K filed November 6, 2006.
- 10.30 Second Amendment to Credit Agreement with Wachovia Bank, National Association as Administrative Agent, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 31, 2007.
- 10.31 Form of Termination Benefits Agreement, attached as Exhibit 10.31 to the Company's Current Report on Form 8-K filed September 10, 2007.
- 10.32 Form of Restricted Stock Agreement (executives), attached as Exhibit 10.32 to the Company's Current Report on Form 8-K filed September 10, 2007.
- 10.33 Form of Restricted Stock Agreement (Vice presidents and certain other managers), attached as Exhibit 10.33 to the Company's Current Report on Form 8-K filed September 10, 2007.
- 10.34 Amendment No. 2 to Jack Henry & Associates, Inc. 2006 Employee Stock Purchase Plan, attached as Exhibit 10.34 to the Company's Current Report on Form 8-K filed November 1, 2007.
- 10.35 Jack Henry & Associates, Inc. 2007 Annual Incentive Plan, attached as Exhibit 10.35 to the Company's Current Report on Form 8-K filed November 1, 2007.
- 10.36 Jack Henry & Associates, Inc. 1995 Non-Qualified Stock Option Plan, as amended May 9, 2008, attached as Exhibit 10.36 to the Company's Annual Report on Form 10-K filed August 29, 2008.

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-K

- 10.37 Jack Henry & Associates, Inc. 1996 Stock Option Plan, as amended May 9, 2008, attached as Exhibit 10.37 to the Company's Annual Report on Form 10-K filed August 29, 2008.
- 10.38 Jack Henry & Associates, Inc. 2005 Non-Qualified Stock Option Plan, as amended and restated May 9, 2008, attached as Exhibit 10.38 to the Company's Annual Report on Form 10-K filed August 29, 2008.
- 21.1 List of the Company's subsidiaries.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer.
- 32.1 Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
- 

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 28th day of August, 2009.

JACK HENRY & ASSOCIATES, INC., Registrant

By /s/ John F. Prim  
Chief Executive Officer

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Michael E. Henry</u>	Chairman of the Board and Director	August 28, 2009
Michael E. Henry		
<u>/s/ John F. Prim</u>	Chief Executive Officer and Director	August 28, 2009
John F. Prim		
<u>/s/ Kevin D. Williams</u>	Chief Financial Officer and Treasurer (Principal Accounting Officer)	August 28, 2009
Kevin D. Williams		
<u>/s/ Jerry D. Hall</u>	Executive Vice President and Director	August 28, 2009

Jerry D. Hall

/s/ James J. Ellis

Director

August 28, 2009

James J. Ellis

/s/ Craig R. Curry

Craig R. Curry

Director

August 28, 2009

/s/ Wesley A. Brown

Wesley A. Brown

Director

August 28, 2009

/s/ Matthew Flanigan

Matthew Flanigan

Director

August 28, 2009

/s/ Marla Shepard

Marla Shepard

Director

August 28, 2009