

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
May 04, 2012

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

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

For the quarterly period ended March 31, 2012

OR

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

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

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation)

43-1128385

(I.R.S Employer Identification No.)

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

(Address of Principle Executive Offices)

(Zip Code)

417-235-6652

(Registrant's telephone number, including area code)

N/A

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

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Large accelerated filer [X]

Accelerated filer [ ]

Non-accelerated filer [ ]

(Do not check if a smaller reporting company)

Smaller reporting company [ ]

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

As of May 2, 2012, Registrant has 87,309,224 shares of common stock outstanding (\$0.01 par value).

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JACK HENRY & ASSOCIATES, INC.

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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## JACK HENRY &amp; ASSOCIATES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data)

(Unaudited)

	March 31, 2012	June 30, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$89,771	\$63,125
Investments, at amortized cost	—	1,000
Receivables, net	118,371	207,510
Income tax receivable	7,284	17,116
Prepaid expenses and other	57,913	45,938
Prepaid cost of product	19,624	19,261
Total current assets	292,963	353,950
PROPERTY AND EQUIPMENT, net	273,106	270,186
<b>OTHER ASSETS:</b>		
Non-current prepaid cost of product	25,062	19,083
Computer software, net of amortization	112,031	110,836
Other non-current assets	29,393	28,492
Customer relationships, net of amortization	167,526	179,133
Trade names, net of amortization	10,434	10,597
Goodwill	533,520	533,520
Total other assets	877,966	881,661
Total assets	\$1,444,035	\$1,505,797
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$10,236	\$12,829
Accrued expenses	49,549	49,479
Deferred income tax liability	15,274	15,274
Accrued income taxes	42	—
Notes payable and current maturities of long term debt	28,567	26,092
Deferred revenues	118,039	276,837
Total current liabilities	221,707	380,511
<b>LONG TERM LIABILITIES:</b>		
Non-current deferred revenues	20,228	18,267
Non-current deferred income tax liability	99,407	89,304
Debt, net of current maturities	112,483	127,939
Other long-term liabilities	11,419	10,000
Total long term liabilities	243,537	245,510
Total liabilities	465,244	626,021
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - \$1 par value; 500,000 shares authorized, none issued	—	—
Common stock - \$.01 par value; 250,000,000 shares authorized;		
Shares issued at 3/31/12 were 101,341,047	1,013	1,008
Shares issued at 06/30/11 were 100,766,173		
Additional paid-in capital	376,648	361,131

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Retained earnings	910,715	827,222	
Less treasury stock at cost 14,406,635 shares at 3/31/12 and 06/30/11	(309,585	) (309,585	)
Total stockholders' equity	978,791	879,776	
Total liabilities and equity	\$1,444,035	\$1,505,797	
See notes to condensed consolidated financial statements			

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

(In Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2012	2011	2012	2011
<b>REVENUE</b>				
License	\$15,009	\$13,025	\$40,825	\$37,944
Support and service	226,535	210,074	672,414	633,062
Hardware	14,760	17,086	47,261	46,636
Total revenue	256,304	240,185	760,500	717,642
<b>COST OF SALES</b>				
Cost of license	2,424	1,145	4,666	4,402
Cost of support and service	139,593	131,010	406,549	383,673
Cost of hardware	10,904	12,740	34,066	34,425
Total cost of sales	152,921	144,895	445,281	422,500
<b>GROSS PROFIT</b>	103,383	95,290	315,219	295,142
<b>OPERATING EXPENSES</b>				
Selling and marketing	18,994	16,929	55,912	50,270
Research and development	15,471	15,716	45,482	46,943
General and administrative	12,421	12,142	38,742	39,662
Total operating expenses	46,886	44,787	140,136	136,875
<b>OPERATING INCOME</b>	56,497	50,503	175,083	158,267
<b>INTEREST INCOME (EXPENSE)</b>				
Interest income	85	61	320	110
Interest expense	(1,464)	) (1,710)	) (4,368)	) (7,089)
Total interest income (expense)	(1,379)	) (1,649)	) (4,048)	) (6,979)
<b>INCOME BEFORE INCOME TAXES</b>	55,118	48,854	171,035	151,288
<b>PROVISION FOR INCOME TAXES</b>	18,461	15,773	59,378	50,391
<b>NET INCOME</b>	\$36,657	\$33,081	\$111,657	\$100,897
Diluted earnings per share	\$0.42	\$0.38	\$1.28	\$1.17
Diluted weighted average shares outstanding	87,592	86,972	87,366	86,553
Basic earnings per share	\$0.42	\$0.38	\$1.29	\$1.18
Basic weighted average shares outstanding	86,824	86,218	86,600	85,819
Cash dividends paid per share	\$0.115	\$0.105	\$0.325	\$0.295

See notes to condensed consolidated financial statements

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

	Nine Months Ended	
	March 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 111,657	\$ 100,897
Adjustments to reconcile net income from operations to net cash from operating activities:		
Depreciation	33,315	31,407
Amortization	37,150	36,210
Change in deferred income taxes	10,103	5,001
Expense for stock-based compensation	4,886	3,438
(Gain)/loss on disposal of assets	79	449
Changes in operating assets and liabilities:		
Change in receivables	89,139	92,921
Change in prepaid expenses, prepaid cost of product and other	(18,623)	(9,631)
Change in accounts payable	(2,593)	(4,746)
Change in accrued expenses	(1,720)	(5,559)
Change in income taxes	11,461	2,781
Change in deferred revenues	(156,837)	(138,010)
Net cash from operating activities	118,017	115,158
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(26,555)	(24,216)
Proceeds from sale of assets	2,772	—
Customer contracts acquired	(720)	—
Computer software developed	(25,855)	(19,279)
Proceeds from investments	3,000	3,000
Purchase of investments	(2,000)	(2,999)
Net cash from investing activities	(49,358)	(43,494)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on credit facilities	—	399
Repayments on credit facilities	(24,315)	(136,921)
Dividends paid	(28,164)	(25,324)
Excess tax benefits from stock-based compensation	3,006	982
Proceeds from issuance of common stock upon exercise of stock options	8,810	18,759
Minimum tax withholding payments related to share based compensation	(3,766)	(2,412)
Proceeds from sale of common stock, net	2,416	1,718
Net cash from financing activities	(42,013)	(142,799)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>\$26,646</b>	<b>\$(71,135)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>\$63,125</b>	<b>\$125,518</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$89,771</b>	<b>\$54,383</b>

Net cash paid for income taxes was \$34,728 for the nine months ended March 31, 2012, compared to \$41,627 for the same period last year. The Company paid interest of \$2,927 and \$5,458 for the nine months ended March 31, 2012 and 2011, respectively. Capital expenditures exclude property and equipment additions totaling \$13,126 and \$3,640 that were in accrued liabilities or were acquired via capital lease during the nine months ended March 31, 2012 and

2011, respectively.

See notes to condensed consolidated financial statements

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JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (In Thousands, Except Per Share Amounts)  
 (Unaudited)

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

## Description of the company

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

## Consolidation

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

## Fair value of financial instruments

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

The Company's estimates of the fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The three levels of the hierarchy are as follows:

Level 1: observable inputs such as quoted prices in active markets

Level 2: inputs other than the quoted prices in active markets that are observable either directly or indirectly

Level 3: unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions

Fair value of financial assets, included in cash and cash equivalents, is as follows:

	Estimated Fair Value Measurements			Total Fair Value
	Quoted Prices in Active Markets (Level 1)	Significant Observable Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
March 31, 2012				
Financial Assets:				
Money market funds	\$57,958	\$—	\$—	\$57,958
June 30, 2011				
Financial Assets:				
Money market funds	\$24,695	\$—	\$—	\$24,695

## Comprehensive income

Comprehensive income for the three and nine-month periods ended March 31, 2012 and 2011 equals the Company's net income.

## Interim financial statements

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America applicable to interim condensed consolidated financial statements, and do not include all of the information and footnotes required by accounting principles generally accepted in the



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United States of America for complete consolidated financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes, which are included in its Annual Report on Form 10-K ("Form 10-K") for the year ended June 30, 2011. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Form 10-K for the fiscal year ended June 30, 2011.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting of normal recurring adjustments) to present fairly the financial position of the Company as of March 31, 2012, the results of its operations for the three and nine-month periods ended March 31, 2012 and 2011, and its cash flows for the nine-month periods ended March 31, 2012 and 2011.

The results of operations for the period ended March 31, 2012 are not necessarily indicative of the results to be expected for the entire year.

**NOTE 2. ADDITIONAL INTERIM FOOTNOTE INFORMATION**

The following additional information is provided to update the notes to the Company's annual consolidated financial statements for developments during the period ended March 31, 2012.

**Common stock**

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or short-term borrowings on its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2011 and March 31, 2012, there were 14,407 shares in treasury stock and the Company had the remaining authority to repurchase up to 5,584 additional shares. The total cost of treasury shares at March 31, 2012 is \$309,585. There were no repurchases of treasury stock during the nine months ended March 31, 2012.

**Commitments and contingencies**

For fiscal 2012, the Board of Directors approved bonus plans for its executive officers and general managers. Under the plan, bonuses may be paid following the end of the current fiscal year based upon achievement of operating income and return on average assets targets. For general managers, one half of each manager's bonus is contingent upon meeting individual business unit objectives established by the executive officer to whom the general manager reports.

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

**NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS**

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurement in May 31, 2011, which is now effective for the Company. The updated explanatory guidance on measuring fair value will be adopted by the Company at that time and is not expected to have a significant impact on our fair value calculations. No additional fair value measurements were required as a result of the update.

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

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment, which is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, although early adoption is permitted. The amendments in the update permit an entity to first assess qualitative factors to

determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The provisions in this update will be effective for the Company beginning July 1, 2012.

NOTE 4. DEBT

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

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	March 31, 2012	June 30, 2011
<b>LONG TERM DEBT</b>		
Term loan	\$ 133,125	\$ 150,000
Capital leases	5,910	—
Other borrowings	527	1,015
	139,562	151,015
Less current maturities	27,079	23,076
Debt, net of current maturities	\$ 112,483	\$ 127,939
<b>SHORT TERM DEBT</b>		
Capital leases	\$ 1,488	\$ 3,016
Current maturities of long-term debt	27,079	23,076
Notes payable and current maturities of long term debt	\$ 28,567	\$ 26,092

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

**Revolving credit facility**

The long term revolving loan allows for borrowings of up to \$150,000, which may be increased by the Company at any time until maturity to \$250,000. The revolving loan terminates June 4, 2015. At March 31, 2012, there was no outstanding revolving loan balance.

**Term loan**

The term loan had an original principal balance of \$150,000, with quarterly principal payments of \$5,625 that began on September 30, 2011. The remaining outstanding balance on June 4, 2015 is due and payable on that date. At March 31, 2012, the outstanding balance of \$133,125 was bearing interest at a rate of 2.47%, and \$22,500 will be maturing within the next twelve months.

Each of the above loans bear interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate or (c) LIBOR plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The loans are secured by pledges of capital stock of certain subsidiaries of the Company. The loans are also guaranteed by certain subsidiaries of the Company. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of March 31, 2012, the Company was in compliance with all such covenants.

**Capital leases**

The Company has entered into various capital lease obligations for the use of certain computer equipment. Long term capital lease obligations were entered into of which \$5,910 remains outstanding at March 31, 2012 of which \$4,124 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling \$1,488 at March 31, 2012.

**Other lines of credit**

The Company renewed an unsecured bank credit line on April 29, 2012 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (2.25% at March 31, 2012). The credit line was renewed through April 29, 2014. At March 31, 2012, no amount was outstanding.

**NOTE 5. INCOME TAXES**

The effective tax rate of 33.5% of income before income taxes for the quarter ended March 31, 2012 is higher than 32.3% for the same quarter in fiscal 2011 primarily due to the effect of the Research and Experimentation Credit ("R&E Credit") which expired December 31, 2011. The rate of income taxes for the nine month period ending March 31, 2012 of 34.7% of income before income taxes compared to 33.3% as reported in fiscal 2011 also fluctuated due to the effect of the R&E Credit expiration.

At March 31, 2012, the Company had \$9,496 of gross unrecognized tax benefits, \$7,548 of which, if recognized, would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits

in the provision for income taxes. As of March 31, 2012, we had accrued interest and penalties of \$1,321 related to uncertain tax positions.

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During the fiscal year ended June 30, 2010, the Internal Revenue Service commenced an examination of the Company's U.S. federal income tax returns for fiscal years ended June 2008 through 2009. Audit field work for these periods is complete, but as of March 31, 2012 the results for these periods are still subject to additional administrative reviews. Additionally, the Internal Revenue Service commenced an examination of the Company's U.S. federal income tax returns for the fiscal year ended June 30, 2010 during the current year. At this time, it is anticipated that the examination will not result in a material change to the Company's financial statements. The U.S. federal and state income tax returns for June 30, 2008 and all subsequent years remain subject to examination as of March 31, 2012 under statute of limitations rules. We anticipate potential changes resulting from the expiration of statutes of limitations could reduce the unrecognized tax benefits balance by \$2,500 - \$3,500 within twelve months of March 31, 2012.

**NOTE 6. STOCK-BASED COMPENSATION**

For the three months ended March 31, 2012 and 2011, there was \$1,871 and \$1,233, respectively, in compensation expense from equity-based awards. Pre-tax operating income for the first nine months of fiscal 2012 and 2011 includes \$4,886 and \$3,438 of equity-based compensation costs respectively.

**2005 NSOP and 1996 SOP**

The Company previously issued options to employees under the 1996 Stock Option Plan ("1996 SOP") and to outside directors under the 2005 Non-Qualified Stock Option Plan ("2005 NSOP"). No stock options were issued under the 1996 SOP or the 2005 NSOP during the nine-month periods ended March 31, 2012.

Changes in stock options outstanding and exercisable are as follows:

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

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2011	990	\$ 15.65	
Granted	—	—	
Forfeited	—	—	
Exercised	(413	) 14.57	
Outstanding March 31, 2012	577	\$ 16.42	\$ 10,204
Vested March 31, 2012	577	\$ 16.42	\$ 10,204
Exercisable March 31, 2012	577	\$ 16.42	\$ 10,204

Compensation cost related to outstanding options has been fully recognized. The weighted-average remaining contractual term on options currently exercisable as of March 31, 2012 was 2.60 years.

**Restricted Stock Plan**

The Company issues both unit awards and share awards under the Restricted Stock Plan. The following table summarizes non-vested unit awards as of March 31, 2012, as well as activity for the nine months then ended:

Unit awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2011	293	15.77
Granted	391	19.69
Vested	—	—
Forfeited	(12	) 15.77
Outstanding March 31, 2012	672	\$ 18.05

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The weighted average assumptions used in this model to estimate fair value at the measurement date and resulting values are as follows:

Volatility	34.2	%
Risk free interest rate	0.31	%
Dividend yield	1.5	%
Stock Beta	0.903	

At March 31, 2012, there was \$8,307 of compensation expense that has yet to be recognized related to non-vested restricted stock unit awards, which will be recognized over a weighted-average period of 2.03 years.

The following table summarizes non-vested share awards as of March 31, 2012, as well as activity for the nine months then ended:

Share awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2011	416	\$22.34
Granted	42	31.50
Vested	(106)	) 22.92
Forfeited	(12)	) 23.52
Outstanding March 31, 2012	340	\$23.26

At March 31, 2012, there was \$3,212 of compensation expense that has yet to be recognized related to non-vested restricted stock share awards, which will be recognized over a weighted-average period of 1.27 years.

**NOTE 7. EARNINGS PER SHARE**

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Net Income	\$36,657	\$33,081	\$111,657	\$100,897
Common share information:				
Weighted average shares outstanding for basic earnings per share	86,824	86,218	86,600	85,819
Dilutive effect of stock options and restricted stock	768	754	766	734
Weighted average shares outstanding for diluted earnings per share	87,592	86,972	87,366	86,553
Basic earnings per share	\$0.42	\$0.38	\$1.29	\$1.18
Diluted earnings per share	\$0.42	\$0.38	\$1.28	\$1.17

Per share information is based on the weighted average number of common shares outstanding for the three and nine-month periods ended March 31, 2012 and 2011. Stock options and restricted stock have been included in the calculation of income per share to the extent they are dilutive. There were no anti-dilutive stock options and restricted stock excluded for the three-month periods ended March 31, 2012 and for the three months ended March 31, 2011. No anti-dilutive stock options and restricted stock were excluded from the computation of diluted earnings per share for the nine-month period ended March 31, 2012 (107 shares were excluded from the computation for the nine-month period ended March 31, 2011).

**NOTE 8. BUSINESS SEGMENT INFORMATION**

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





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	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	Bank	Credit Union	Total	Bank	Credit Union	Total
REVENUE						
License	\$10,887	\$4,122	\$15,009	\$8,464	\$4,561	\$13,025
Support and service	173,422	53,113	226,535	163,354	46,720	210,074
Hardware	10,390	4,370	14,760	11,672	5,414	17,086
Total revenue	194,699	61,605	256,304	183,490	56,695	240,185
COST OF SALES						
Cost of license	1,903	521	2,424	770	375	1,145
Cost of support and service	106,654	32,939	139,593	100,355	30,655	131,010
Cost of hardware	7,635	3,269	10,904	8,523	4,217	12,740
Total cost of sales	116,192	36,729	152,921	109,648	35,247	144,895
GROSS PROFIT	\$78,507	\$24,876	103,383	\$73,842	\$21,448	95,290
OPERATING EXPENSES			46,886			44,787
INTEREST INCOME (EXPENSE)			(1,379 )			(1,649 )
INCOME BEFORE INCOME TAXES			\$55,118			\$48,854
	Nine Months Ended March 31, 2012			Nine Months Ended March 31, 2011		
	Bank	Credit Union	Total	Bank	Credit Union	Total
REVENUE						
License	\$28,102	\$12,723	\$40,825	\$26,826	\$11,118	\$37,944
Support and service	515,687	156,727	672,414	493,965	139,097	633,062
Hardware	33,769	13,492	47,261	33,596	13,040	46,636
Total revenue	577,558	182,942	760,500	554,387	163,255	717,642
COST OF SALES						
Cost of license	3,736	930	4,666	3,544	858	4,402
Cost of support and service	309,848	96,701	406,549	293,529	90,144	383,673
Cost of hardware	23,747	10,319	34,066	24,309	10,116	34,425
Total cost of sales	337,331	107,950	445,281	321,382	101,118	422,500
GROSS PROFIT	\$240,227	\$74,992	315,219	\$233,005	\$62,137	295,142
OPERATING EXPENSES			140,136			136,875
INTEREST INCOME (EXPENSE)			(4,048 )			(6,979 )
INCOME BEFORE INCOME TAXES			\$171,035			\$151,288



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	March 31, 2012	June 30, 2011
Property and equipment, net		
Bank systems and services	\$240,544	\$235,929
Credit Union systems and services	32,562	34,257
Total	\$273,106	\$270,186
Intangible assets, net		
Bank systems and services	\$589,862	\$594,507
Credit Union systems and services	233,649	239,579
Total	\$823,511	\$834,086

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

## NOTE 9. SUBSEQUENT EVENTS

On May 4, 2012, the Company's Board of Directors declared a cash dividend of \$0.115 per share on its common stock, payable on May 31, 2012 to shareholders of record on May 21, 2012.

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

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

## RESULTS OF OPERATIONS

## Background and Overview

We provide integrated computer systems for both in-house installations and outsourced data processing to commercial banks, credit unions and other financial institutions. We have developed and acquired banking and credit union application software systems that we market, together with data conversion services, software implementation services and compatible computer hardware, to these financial institutions. For in-house installations we also 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 data centers in five physical locations and four image-enabled item-processing centers. In the third quarter of fiscal 2012, revenues increased 7% or \$16,119 compared to the same period in the prior year, with particularly strong growth continuing in our electronic payment services and our outsourcing services. In the first nine months of fiscal 2012, revenues increased 6% or \$42,858 compared to the first nine months of last year due to revenue growth in all three of our components of revenue (license, support and service, and hardware). During fiscal 2012, the Company continued to focus on cost management and also reduced interest cost from our sustained repayment of long-term debt. The growth in revenue and reduced interest cost, partially offset by a slightly higher tax rate, has resulted in a 11% increase in net income for the quarter and an 11% increase for the year-to-date period. The current condition of the U.S. financial markets continues to impact the overall demand and spending for new products and services by some of our customers. The profitability of many financial institutions continues to improve, but in many cases remains low and this appears to have resulted in some reduction of demand for new products and services. During the past four years, a number of financial institutions have closed or merged due to regulatory action. We believe that regulatory closings will continue to decline through fiscal 2012, absent a significant downturn in the economy. Furthermore, the increase in bank failures and forced consolidations has been, to some extent, offset by a general decline in the level of acquisition activity among financial institutions.

We continue through fiscal 2012 with cautious optimism following strong third quarter results. Significant portions of our business continue to come from recurring revenue, and increases in backlog coupled with a healthy sales pipeline are also encouraging. Our customers continue to face regulatory and operational challenges which our products and services address, and in these times they have an even greater need for our solutions that directly address institutional profitability and efficiency. Our strong balance sheet, access to extensive lines of credit, the strength of our existing product line and an unwavering commitment to superior customer service position us well to address current and future opportunities to extend our customer base and produce returns for our stockholders.

A detailed discussion follows of the major components of the results of operations for the three and nine-month periods ended March 31, 2012. All amounts are in thousands and discussions compare the current three and nine-month periods ended March 31, 2012, to the prior year three and nine-month periods ended March 31, 2011.

## REVENUE

License Revenue	Three Months Ended		%	Change	Nine Months Ended		%	Change
	March 31, 2012	2011			March 31, 2012	2011		
License	\$15,009	\$13,025	15	%	\$40,825	\$37,944	8	%
Percentage of total revenue	6	% 5	%		5	% 5	%	

The current quarter increase is due to strong results from our Silverlake® core system and related complementary products including 4iSight™ and our Yellow Hammer™ products, partially offset by reduced revenue from our Alogent® products (our suite of deposit and image capture products targeted at large financial institutions) which returned to normal levels compared to a particularly strong quarter in the same period last year.

The year-to-date increase is mainly due to increases in Silverlake® and Episys® revenues, slightly offset by the Alogent® decrease year-over-year.

While license fees will fluctuate from quarter to quarter, recent trends indicate that our customers are increasingly electing to contract for our products via outsourced delivery rather than a traditional license as our outsourced delivery does not require an up-front capital investment in license fees. We expect this trend to continue in the long term.

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Support and Service Revenue	Three Months Ended			% Change	Nine Months Ended			% Change
	March 31,				March 31,			
	2012	2011		2012	2011			
Support and service	\$226,535	\$210,074	8	%	\$672,414	\$633,062	6	%
Percentage of total revenue	88	% 87	%		88	% 88	%	
	Qtr over Qtr Change			Year over Year Change				
	\$ Change	% Change		\$ Change	% Change			
In-House Support & Other Services	\$1,735	2	%	\$4,950	2	%		
Electronic Payment Services	8,587	11	%	24,220	11	%		
Outsourcing Services	4,010	9	%	7,269	5	%		
Implementation Services	2,129	14	%	2,913	6	%		
Total Increase	\$16,461			\$39,352				

There was growth in all support and service revenue components for both the current quarter and the year-to-date. In-house support and other services revenue increased for the three and nine month periods due to annual maintenance fee increases (as our customers' assets have grown) and increased revenues from our system conversion services. Revenue from our complementary products has also grown as the total number of supported in-house products has grown.

Electronic payment services continue to experience the largest growth. The quarterly and nine-month revenue increases are attributable to strong performance across our electronic payment products, particularly from debit/credit card processing services, online bill payment services and ACH processing.

Outsourcing services for banks and credit unions continue to drive revenue growth as customers continue to show a preference for outsourced delivery of our solutions. We expect the trend towards outsourced product delivery to benefit outsourcing services revenue for the foreseeable future. Revenues from outsourcing services are typically earned under multi-year service contracts and therefore provide a long-term stream of recurring revenues.

Implementation services revenue increased for the quarter due mainly to increased implementations of our Silverlake® and Episys® core products, coupled with increased merger conversion revenues, particularly from Silverlake®. The year-to-date increased revenue is due to improved implementation revenue, mainly from our Episys® credit union core product as well as higher merger conversion implementation revenues, which include our Silverlake® and Core Director® core banking products.

Hardware Revenue	Three Months Ended			% Change	Nine Months Ended			% Change
	March 31,				March 31,			
	2012	2011		2012	2011			
Hardware	\$14,760	\$17,086	(14	)%	\$47,261	\$46,636	1	%
Percentage of total revenue	6	% 7	%		6	% 6	%	

Hardware revenue continues to fluctuate from quarter to quarter. Revenue has increased slightly for the nine month periods due to an increase in the number of third party hardware systems and components delivered, mainly in the second quarter, as existing customers upgraded their hardware systems.

Although there will be continuing quarterly fluctuations, we expect there to be an overall decreasing trend in hardware sales due to the change in sales mix towards outsourcing contracts, which typically do not include hardware, and the deflationary trend of computer prices generally.

**BACKLOG**

Our backlog of \$396,977 (\$82,419 in-house and \$314,558 outsourcing) at March 31, 2012 increased 18% from \$335,485 (\$76,883 in-house and \$258,602 outsourcing) at March 31, 2011. The current quarter backlog increased 5% from December 31, 2011, when backlog was \$378,778 (\$73,742 in-house and \$305,036 outsourcing).

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COST OF SALES AND GROSS PROFIT