HENRY JACK & ASSOCIATES INC
Form 10-K
August 30, 2007

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)

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

For the fiscal year ended June 30, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission 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

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 [X] 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 [X]

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 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. [X]

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

Large Accelerated Filer [X]   Accelerated Filer [ ]   Non-Accelerated Filer [ ]

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

As of August 20, 2007, the Registrant had 89,284,629 shares of Common Stock outstanding ($0.01 par value). On that date, the aggregate market value of the Common Stock held by persons other than those who may be deemed affiliates of Registrant was $2,097,543,709 (based on the average of the reported high and low sales prices on NASDAQ on such date).

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the Company's Notice of Annual Meeting of Stockholders and Proxy Statement for its 2007 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.

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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 8,700 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 1,700 banks ranging from de novo or start-up institutions to mid-tier banks with assets in excess of $1 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 650 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. According to Callahan and Associates' *2007 Credit Union Technology Survey*, a respected source of published data related to the credit union industry, for eight consecutive years Symitar's core processing platforms have been implemented by more credit unions with assets exceeding $25 million than any competitive system.

- 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 proven 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 6,400 domestic and international customers.

Our products and services enable our customers to implement proven 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.

Our sustainable competitive advantage is a company-wide commitment to exceed our customers' service-related expectations. We measure and monitor customer satisfaction using formal annual surveys and more than 50,000 online surveys initiated each year 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. Based on these strategic initiatives, targeted marketing and sales initiatives, and disciplined acquisition activities, our customer base has increased 190 percent during the four-year period ranging from June 30, 2003 to June 30, 2007, growing from approximately 3,000 customers to more than 8,700 customers.

We have three primary revenue sources:

- Software license fees paid by customers installing 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 $404.6 million in fiscal 2003 to $668.1 million in fiscal 2007, representing a compound annual growth rate during this five-year period of 11

percent. Net income from continuing operations has grown from $49.4 million to $104.7 million during this same five-year period, representing a compound annual growth rate of 13 percent. Information regarding the classification of our business into separate segments serving the banking and credit union industries is set forth in Note 13 to the Consolidated Financial Statements (see Item 8).

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

- 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 $20.0 billion in assets, and generated approximately 83 percent of the Company's total revenue in fiscal 2007. According to the Federal Deposit Insurance Corporation ("FDIC"), there were approximately 8,600 commercial banks and savings institutions in this asset range as of December 31, 2006. Jack Henry Banking currently supports more than 1,600 of these banks with its core information processing platforms and complementary products and services.

Symitar serves credit unions of all asset sizes, and generated approximately 17 percent of the Company's total revenue in fiscal 2007. According to the Credit Union National Association ("CUNA"), there were approximately 8,600 domestic credit unions as of December 31, 2006. Symitar currently supports more than 650 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. The related revenue and gross profit are included and reported in our banking and credit union segments. ProfitStars currently supports approximately 6,400 institutions with specialized solutions for generating additional revenue and growth, increasing security and 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 2002 to the end of calendar year 2006. 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 9 percent and totaled $10 trillion as of December 31, 2006. Comparing calendar years 2006 to 2005, new bank charters increased 7 percent and mergers increased 9 percent.

CUNA reports the number of credit unions declined 16 percent from the beginning of calendar year 2002 to the end of calendar year 2006. 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 7 percent and totaled $732.5 billion as of December 31, 2006.

According to *Automation in Banking 2007,* approximately 55 percent of all commercial banks currently utilize in-house core information processing solutions and approximately 45 percent outsource information processing to third-party providers. According to the *2007 Credit Union Technology Survey* published by Callahan & Associates, approximately 75 percent of all credit unions with assets exceeding $25 million utilize in-house core information processing solutions and approximately 25 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:

- Cross 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 15 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 6,400 domestic and international implementations.

Since the beginning of fiscal year 2004, the following acquisitions have been made to support JHA's focused diversification:

Fiscal Year	Company or Product Name	Products and Services
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
2005	Banc Insurance Services	Insurance Agency Outsourcing
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		

JHA was founded in 1976 as a provider of core information processing solutions for community banks. Today, we provide an extensive array of products and services that enable more than 8,700 financial institutions and corporate entities to capitalize on business opportunities and respond to inherent business challenges with proven 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 1,600 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. According to Callahan and Associates, a respected source of published data related to the credit union industry, for eight consecutive years Symitar's core processing platforms have been implemented by more credit unions with assets exceeding $25 million than any competitive alternative, positioning Symitar as the recognized market leader.

- 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 approximately 6,400 domestic and international implementations. These distinct products and services can be implemented individually or as solution suites to address specific business problems and enable effective responses to dynamic industry trends.

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®

is a robust IBM® System i™-based system primarily designed for commercial-focused banks with assets ranging from $500 million to $20 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 15 percent of the domestic banks with assets ranging from $1 billion to $30 billion.

- CIF 20/20®

is a parameter-driven, easy-to-use system that now supports approximately 900 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®

is a Windows®-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®

is a robust IBM System p™-based system primarily designed for credit unions with more than $50 million in assets. It has been implemented by more than 500 credit unions and is ranked as the system implemented by more credit unions with assets exceeding $25 million than any other alternative.

- Cruise®

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 190 credit unions, is cost-efficient, and provides intuitive point-and-click, drag-and-drop operation.

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

Customers can eliminate the significant up-front capital expenditures required by in-house installations and the responsibility for operating information and transaction processing infrastructures by outsourcing these functions to JHA. Our outsourcing services are provided through a national network of six data center locations and 23 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
Business Analytics

- Business intelligence and analysis platform fully integrated with the CIF 20/20 and Episys core systems
Business Analytics/Financial Management Analytics/Operations Management Analytics/Sales Management Analytics

- Business intelligence solutions
Margin Maximizer

- Loan and deposit pricing solution
Synapsys

® - 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

® - Organizational and product profitability system
PROFITstar

® *ALM/Budgeting* - Asset/liability management and budgeting system
Regulatory Reporting Solutions

- Electronic FDIC reporting systems
TimeTrack Payroll System

™ - 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® Branch Sales Automation

- Fully integrated platform solution
StreamLine Platform Automation

® - 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

Insurance Agency Outsourcing

- Turnkey insurance agency solution

Business Banking Solutions

JHA's business banking solutions enable banks to enhance their commercial customers' experience, capitalized 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, real-time commercial banking 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

™ - Bank-branded Internet banking solution
NetTeller Cash Management

- Online commercial account management solution
NetTeller Bill Pay

- Electronic bill payment solution
DirectLine

™*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® FraudAction℠

- 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.

Biodentify

® - Biometric identity management solution
Centurion Disaster Recovery

® - 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® FraudAction℠

- 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™ 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℠

- 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

Insurance Agency Outsourcing

- Turnkey insurance agency outsourcing solution

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.

jXchange

Although JHA provides one of the most extensive product offerings available today, our experience supporting core bank and credit union clients has demonstrated that diverse financial services organizations have niche product requirements outside the Company's offering. In response, we developed jXchange, a services-oriented architecture on a .NET platform that provides open connectivity between our core and complementary solutions and third-party products. This contemporary integration methodology increases financial institutions' operating flexibility, and enables them to leverage existing and future technology investments.

Hardware Systems

Hardware sales, which include all 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 System i, System p, and System x servers; IBM workstations; Dell servers and workstations; NCR, BancTec, and Unisys check transports; 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;
- Superior 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 8,700 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 more than 50,000 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 2007, 2006, and 2005 were $36.0 million, $31.9 million, and $27.7 million, respectively. Capitalized software for fiscal years 2007, 2006 and 2005 was $20.7 million, $16.1 million, and $7.8 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 $20.0 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 during the past two 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 41 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, 2007, 2006, and 2005.

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, 2007 totaled $239.3 million, consisting of $68.1 million for in-house products and services, and $171.2 million for outsourcing services. Approximately $126.0 million of the outsourcing services backlog as of June 30, 2007 is not expected to be realized during fiscal year 2008 due to the long-term nature of many outsourcing contracts. Backlog as of June 30, 2006 totaled $222.0 million, and consisted of $66.4 million for in-house products and services, and $155.6 million for outsourcing services.

Our in-house backlog is subject to seasonal variations and can fluctuate quarterly. Our outsourcing backlog continues to experience growth based on new contracting activities and renewals of multi-year contracts, and although the appropriate portion of this revenue will be recognized during fiscal year 2008 the backlog is expected to remain constant due to renewals of existing relationships and new contracting activities expected to surpass the revenue recognized.

Competition

The market for companies providing technology solutions to financial services organizations is competitive, and we expect 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. During the last 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 Information Services, Inc.; Fiserv, Inc.; and Metavante. Symitar competes with large vendors that provide information and transaction processing solutions to credit unions, including Fidelity 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. We must ensure that our products and services 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, 2007 and 2006, JHA had 3,583 and 3,310 full-time employees, respectively. Of our employees, approximately 640 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**

. 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 the Website and 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.

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.

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.

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 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.

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.

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.

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 9,000 commercial and savings banks and 9,000 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 and the Federal Deposit Insurance Corporation, among other regulatory agencies. These agencies regulate services we provide and the manner in which we operate, and we are required to comply with a broad range of applicable laws and regulations. In addition, existing laws, regulations, and policies could be amended or interpreted differently by regulators in a manner that has a negative impact on our existing operations or that limits our future growth or expansion. Our customers are also regulated entities, and actions by regulatory authorities could determine both the decisions they make concerning the purchase of data processing and other services and the timing and implementation of these decisions. Concerns are growing with respect to the use, confidentiality, and security of private customer information. Regulatory agencies, Congress and state legislatures are considering numerous regulatory and statutory proposals to protect the interests of consumers and to require compliance with standards and policies that have not been defined.

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

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

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 unimproved land in Springfield, Missouri. Our owned facilities represent approximately 793,000 square feet of office space in nine states. We have 51 leased office facilities in 25 states, which total approximately 422,000 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 128,000 square feet in nine facilities. The majority of our San Diego, California offices are used in the credit union business segment, as are portions of eight other office facilities. The remainder of our leased and owned facilities, approximately 1,087,000 square feet of office space, is primarily devoted to serving our bank business segment or supports our whole business.

We own six aircraft and lease a seventh. 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 2007	High	Low
First Quarter	$22.20	$17.40
Second Quarter	23.20	21.02
Third Quarter		

	24.67	20.57
Fourth Quarter	26.75	23.54

Fiscal 2006	High	Low
First Quarter	$19.80	$18.04
Second Quarter	19.62	16.56
Third Quarter	22.98	19.09
Fourth Quarter	23.77	18.14

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, 2007 and 2006 are as follows:

Fiscal 2007	Dividend
First Quarter	$0.055
Second Quarter	0.055
Third Quarter	0.065
Fourth Quarter	0.065

Fiscal 2006	Dividend
First Quarter	$0.045
Second Quarter	0.045
Third Quarter	0.055
Fourth Quarter	0.055

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 20, 2007, there were approximately 44,000 holders of the Company's common stock. On that same date the last sale price of the common shares as reported on NASDAQ was $25.96 per share.

Issuer Purchases of Equity Securities

The following shares of the Company were repurchased during the quarter ended June 30, 2007:

Period	Total Number of Shares Purchased	Average Price of Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number Shares that May Yet Be Purchased Under the Plans (1)
April 1 - April 30, 2007	143,600	$ 23.78	143,600	3,817,875
May 1 - May 31, 2007	617,433	$ 25.25	617,433	3,200,442
June 1 - June 30, 2007	310,793	$ 25.87	310,793	2,889,649
Total	1,071,826	$ 25.23	1,071,826	2,889,649

(1)

Purchases made under the stock repurchase authorization approved by the Company's Board of Directors on October 4, 2002 with respect to 3.0 million shares, which was increased by 2.0 million shares on April 29, 2005. On August 25, 2006, following the end of the quarter, the Company's Board of Directors approved an additional 5.0 million share increase to the stock repurchase authorization. These authorizations have no specific dollar or share price targets and no expiration dates.

Performance Graph

The following chart presents a comparison for the five-year period ended June 30, 2007, 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:

The following information depicts a line graph with the following values:

	JKHY	Peer Group	S & P 500
2002	100.00	100.00	100.00
2003	107.73	100.27	100.25
2004	122.67	113.88	119.41
2005	112.75	116.86	126.96
2006	122.29	130.92	137.92
2007	161.88	162.92	166.32

This comparison assumes $100 was invested on July 1, 2002, 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 Bisys Group, Cerner Corp., Computer Sciences Corp., Efunds Corp., Euronet Worldwide Inc., Fair Isaac Corp., Fidelity National Financial, Fiserv Inc., Marshall & Ilsley Corp., National Datacomputer Com, SEI Investments Company and First Data Corp.

Item 6. Selected Financial Data

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

	YEAR ENDED JUNE 30,				
Income Statement Data	2007	2006	2005	2004	2003
Revenue (1)	$ 668,062	$ 592,205	$ 535,863	$ 467,415	$ 404,627
Net income	$ 104,681	$ 89,923	$ 75,501	$ 62,315	$ 49,397
Diluted net income per share	$ 1.14	$ 0.96	$ 0.81	$ 0.68	$ 0.55
Dividends declared per share	$ 0.24	$ 0.20	$ 0.17	$ 0.15	$ 0.14
Balance Sheet Data					
Working capital	$ 19,908	$ 42,918	$ 13,710	$ 85,818	$ 70,482
Total assets	$ 999,340	$ 906,067	$ 814,153	$ 653,614	$ 548,575
Long-term debt	$ 128	$ 421	$ -	$ -	$ -
Stockholders' equity	$ 598,365	$ 575,212	$ 517,154	$ 442,918	$ 365,223

(1)

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 and 23 item-processing centers located throughout the United States.

A detailed discussion of the major components of the results of operations follows. All amounts are in thousands and discussions compare fiscal 2007 to fiscal 2006 and compare fiscal 2006 to fiscal 2005.

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 $404,627 in fiscal 2003 to $668,062 in fiscal 2007. Net income has grown from $49,397 in fiscal 2003 to $104,681 in fiscal 2007. This growth has resulted primarily from internal expansion supplemented by strategic acquisitions, allowing us to develop and acquire new products and services for approximately 2,300 customers who utilize our core software systems as of June 30, 2007.

Since the start of fiscal 2004, we have completed 15 acquisitions, including one completed after June 30, 2007. 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 2007 COMPARED TO FISCAL 2006

Fiscal 2007 showed strong growth in support and service revenues and improved gross and operating margins, tempered somewhat by decreases in software license revenues. This performance allowed us to leverage a 13% increase in total revenue to a 16% increase in net income.

REVENUE

License Revenue

	Year Ended June 30,		%
	2007	2006	Change
License	$ 76,403	$ 84,014	-9%
Percentage of total revenue	11%	14%	

License revenue represents the delivery and acceptance of application software systems contracted by us with 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 $7,611 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), NetTeller Online Banking™ (our bank-branded internet banking solution), and Episys® (our flagship core software solution for larger credit unions). A significant portion of the decrease in license revenue can be attributed to the continuing shift in demand from banks and credit unions toward our outsourcing services from an in-house delivery, which do not require software license agreements. Another contributing factor is the market penetration we have with several of our products including Episys and NetTeller which has caused us to anticipate reduced license sales for these products compared to prior years.

Support and Service Revenue

	Year Ended June 30,		%
	2007	2006	Change
Support and service	$ 503,317	$ 425,661	+18%
Percentage of total revenue	75%	72%	

Year Over Year Change	$ Change	% Change
In-House Support & Other Services	$ 21,369	11%
EFT Support	28,879	38%
Outsourcing Services	15,963	16%

Implementation Services	11,445	24%
Total Increase	$ 77,656	

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

There was strong growth in all 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 and dollar growth. 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 primarily due to an increase in the number of in-house implementations, as well as an increase in merger conversions for existing customers that acquired other financial institutions.

Hardware Revenue

	Year Ended June 30,		% Change
	2007	2006	
Hardware	$ 88,342	$ 82,530	+7%
Percentage of total revenue	13%	14%	

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 mainly due to an increase in the number of hardware systems and components delivered in the year compared to last fiscal year. In particular, there has been a significant increase in revenue from hardware components used in our remote deposit capture product for imaging and exchanging of checks.

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,

	2007	2006	% Change
Cost of License	$ 4,277	$ 2,717	+57%
Percentage of total revenue	<1%	<1%	
License Gross Profit	$ 72,126	$ 81,297	-11%
Gross Profit Margin	94%	97%	
Cost of support and service	$ 312,138	$ 272,383	+15%
Percentage of total revenue	47%		

			46%
Support and Service Gross Profit	$ 191,179	$ 153,278	+25%
Gross Profit Margin	38%	36%	
Cost of hardware	$ 65,469	$ 60,658	+8%
Percentage of total revenue	10%	10%	
Hardware Gross Profit	$ 22,873	$ 21,872	+5%
Gross Profit Margin	26%	27%	

TOTAL COST OF SALES	$ 381,884	$ 335,758	+14%
Percentage of total revenue	57%	57%	
TOTAL GROSS PROFIT	$ 286,178	$ 256,447	+12%
Gross Profit Margin	43%	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 (including an 8% increase in headcount), 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) as compared to last year. The gross profit margin increased to 38% from 36% in support and service, primarily due to a shift in sales mix toward services with higher margins, such as our EFT Support services. Cost of hardware increased for the year, in line with the increase in hardware sales. Hardware gross profit margin decreased slightly due to lower vendor rebates received during the year compared to the prior year. Incentives and rebates received from vendors fluctuate quarterly and annually due to changing thresholds established by the vendors.

OPERATING EXPENSES

Selling and Marketing

	Year Ended June 30,		%
	2007	2006	Change

Selling and marketing	$ 51,045	$ 50,007	+2%
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 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 2007 fiscal year, the selling and marketing expenses increase was due to growth in personnel costs, particularly commission expenses. Selling and Marketing expenses remained steady for both years at 8% of total revenue.

Research and Development

	Year Ended June 30,		% Change
	2007	2006	
Research and development	$ 35,962	$ 31,874	+13%
Percentage of total revenue	5%	5%	

We devote significant effort and expense to develop new software, to service products and to continually upgrade and enhance our existing offerings. Typically, we upgrade 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 a 13% increase in headcount for ongoing development of new products and enhancements to existing products. Research and development expenses remained at 5% of total revenue for both fiscal years.

General and Administrative

	Year Ended June 30,		% Change
	2007	2006	
General and administrative	$ 40,617	$ 35,209	+15%
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 3% increase in headcount and increased expenses related to stock options. In addition, during the first half of fiscal 2006, a new accounting system was being actively developed and a percentage of salaries were being capitalized. Also impacting the increase was growth in overhead related costs such as insurance, depreciation and amortization, professional services and maintenance contracts. General and administrative costs remained at 6% of total revenue for both fiscal years.

INTEREST INCOME (EXPENSE)

Interest income increased 65% from $2,066 to $3,406 due primarily to larger invested balances coupled with higher interest rates on invested balances. Interest expense increased 30% from $1,355 to $1,757 due to borrowings on the revolving bank credit facilities.

PROVISION FOR INCOME TAXES

The provision for income taxes was $55,522 or 34.6% of income before income taxes in fiscal 2007 compared with $50,145 or 35.8% of income before income taxes fiscal 2006. The decrease in the percentage for fiscal 2007 is primarily due to the renewal of the Research and Experimentation Credit retroactive to January 1, 2006, which required the recording of an additional six months of credit during fiscal year 2007 related to fiscal year 2006. This created a significant tax benefit (approximately $3,000 additional benefit over the prior year) for fiscal 2007.

NET INCOME

Net income increased 16% from $89,923, or $0.96 per diluted share in fiscal 2006 to $104,681, or $1.14 per diluted share in fiscal 2007.

FISCAL 2006 COMPARED TO FISCAL 2005

Fiscal 2006 showed strong growth in support and service revenues and improved gross and operating margins, which allowed us to leverage an 11% increase in total revenue to a 19% increase in net income.

REVENUE

License Revenue

	Year Ended June 30,		% Change
	2006	2005	
License	$ 84,014	$ 82,374	+2%
Percentage of total revenue	14%	15%	

License revenue represents the delivery and acceptance of application software systems contracted by us with 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 increased by $1,640 compared to last fiscal year mainly due to growth in delivery and acceptance of software systems within the banking segment, partially offset by a decrease in the credit union segment which had experienced record revenues in fiscal 2005. Year-to-date license revenue in fiscal 2006 experienced growth in many software solutions. The leading elements were Synergy Intelligent Document Imaging™ (our intelligent document imaging and archiving solution), SilverLake System® (our flagship software solution for larger banks), Biodentify® (our biometric fingerprint security solution), and Fraud Detective™ (our anti-fraud and anti-money laundering software solution). In addition, both PROFITability® (our product profitability solution) and PROFITstar ALM/Budgeting (our asset/liability and budgeting solution), which were acquired during fiscal 2006, contributed to license revenue growth.

Support and Service Revenue

	Year Ended June 30,		% Change
	2006	2005	
Support and service	$ 425,661	$ 364,076	+17%
Percentage of total revenue	72%	68%	

Year Over Year Change

	$ Change	% Change
In-House Support & Other Services	$ 26,932	16%
EFT Support	18,357	32%
Outsourcing Services	13,714	15%
Implementation Services	2,582	6%
Total Increase	$ 61,585	

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 ATM and debit card processing services.

There was strong growth in all of the support and service revenue components. In-house support and other services increased primarily from additional software licenses sold during the previous twelve months. EFT support, including ATM and debit card transaction processing services, experienced the largest percentage of growth. Our daily transaction counts are rapidly growing as we have added customers and as our customers continue to experience consistent organic growth in ATM and debit card transactions. 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 open new data processing sites. We expect growth in outsourcing to continue as we add services from recent acquisitions to our existing and new customers. Implementation services reflect growth as contracting activity continues for new license implementation as well as for conversion activities for our existing customers who have acquired institutions that had used other software systems.

Hardware Revenue

	Year Ended June 30,	% Change

	2006	2005	
Hardware	$ 82,530	$ 89,413	-8%
Percentage of total revenue	14%	17%	

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 continued to decrease as in prior years due to the overall rising equipment processing power and decreasing equipment prices. The Company experienced growth in revenues related to IBM iSeries machines, which was offset by a decrease in revenues related to pSeries machines. These changes are consistent with the changes experienced with our license revenues. In addition, the Company discontinued offering certain services related to uninterruptible power supply equipment during fiscal 2005 which led to a decrease sales of that equipment during fiscal 2006.

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, ATM and debit card 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

2006

2005

Cost of License	$ 2,717	$ 5,547	-51%
Percentage of total revenue	<1%		

			1%
License Gross Profit	$ 81,297	$ 76,827	+6%
Gross Profit Margin	97%	93%	
Cost of support and service	$ 272,383	$ 244,097	+12%
Percentage of total revenue	46%	46%	
Support and Service Gross Profit	$ 153,278	$ 119,979	+28%
Gross Profit Margin	36%	33%	

Cost of hardware	$ 60,658	$ 63,769	-5%
Percentage of total revenue	10%	12%	
Hardware Gross Profit	$ 21,872	$ 25,644	-15%
Gross Profit Margin	27%	29%	
TOTAL COST OF SALES	$ 335,758	$ 313,413	+7%
Percentage of total revenue	57%	58%	
TOTAL GROSS PROFIT	$ 256,447	$ 222,450	

	+15%
Gross Profit Margin	
	43%
	42%

Cost of license decreased for the fiscal year due to fewer third party reseller agreement software vendor costs. Gross profit margin on license revenue increased because a smaller percentage of the revenue growth was attributable to these reseller agreements. Cost of support and service increased for the year primarily due to additional personnel costs (including a 9% increase in headcount) and costs related to the expansion of infrastructure (including depreciation, amortization, and maintenance contracts) as compared to last year. The gross profit margin increased to 36% from 33% in support and service, primarily due to efficiencies gained as recent acquisitions have become more fully integrated and to a shift in sales mix toward services with slightly higher margins, such as our ATM and debit card processing services. Cost of hardware decreased for the year, in line with the decrease in hardware sales, primarily due to the types of equipment sold, with varying vendor incentives in the current year. Incentives and rebates received from vendors fluctuate quarterly and annually due to changing thresholds established by the vendors. Hardware gross profit margin decreased due to the number of hardware shipments, sales mix and vendor rebates received throughout the year.

OPERATING EXPENSES

Selling and Marketing

	Year Ended June 30, 2006	Year Ended June 30, 2005	% Change
Selling and marketing	$ 50,007	$ 46,630	+7%
Percentage of total revenue	8%	9%	

Dedicated sales forces, inside sales teams, technical sales support teams and channel partners conduct our sales efforts for our 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. Our inside sales force markets specific complementary products and services to our existing customers.

For the 2006 fiscal year, the selling and marketing expenses increase was due to growth in personnel costs and additional expenses related to product promotion, and generally correlates to the increase in revenue.

Research and Development

	Year Ended June 30, 2006	Year Ended June 30, 2005	% Change
Research and development	$ 31,874	$ 27,664	+15%
Percentage of total revenue	5%	5%	

We devote significant effort and expense to develop new software, to service products and to continually upgrade and enhance our existing offerings. We upgrade our various core and complementary software applications throughout the 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 a 21% increase in headcount for ongoing development of new products and enhancements to existing products, and depreciation and equipment maintenance expense. Research and development expenses remained at 5% of total revenue for both fiscal years.

General and Administrative

	Year Ended June 30,		% Change
	2006	2005	
General and administrative	$ 35,208	$ 29,087	+21%
Percentage of total revenue	6%	5%	

General and administrative expense increased primarily due to employee costs associated with a 27% increase in headcount and increases in employee benefit costs. Also impacting the increase was growth in overhead related costs such as insurance, professional services and maintenance contracts.

INTEREST INCOME (EXPENSE)

Interest income increased 78% from $1,162 to $2,066 due primarily to larger invested balances coupled with higher interest rates on invested balances. Interest expense increased 249% from $388 to $1,355 due to borrowings on the revolving bank credit facilities.

PROVISION FOR INCOME TAXES

The provision for income taxes was $50,145 or 35.8% of income before income taxes in fiscal 2006 compared with $44,342 or 37.0% of income before income taxes fiscal 2005. The decrease in the percentage for fiscal 2006 is due to several factors, including the Section 199 Deduction for Domestic Production Activities, which is new this year. Also impacting this year's tax rate was the Company's tax treatment of the deduction for meals and entertainment expenses, as well as changes in the estimated state tax rates and from our re-evaluation of changes in state tax laws in relationship to our tax structure.

NET INCOME

Net income increased 19% from $75,501, or $0.81 per diluted share in fiscal 2005 to $89,923, or $0.96 per diluted share in fiscal 2006.

Business Segment Discussion

Bank Systems and Services

	2007	% Change	2006	% Change	2005
Revenue	$557,456	+15%	$482,886	+13%	$428,695
Gross Profit	$244,164	+14%	$214,817	+18%	$181,792
Gross Profit Margin	44%		44%		42%

In fiscal 2007, 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 40% revenue growth. Gross profit margin remained flat as growth generated by increasing EFT support revenue, which carries higher margins than other components of support and service revenue, was offset by decreasing license profit margin. Profit from license revenue decreased due to both a decrease in revenue and to an increase in the number of sales that were subject to third party seller agreements. Hardware revenue increased by 11%; however, lower vendor rebates during fiscal 2007 compared to fiscal 2006 led to a slightly lower hardware margin.

In fiscal 2006, the revenue increase in the bank systems and services business segment was primarily due to improved license sales for most products and continued growth in support and service revenue. Gross profit increased due to growth in license and support and service revenue, which carry a higher gross profit margin. Support and service revenue, which is the largest component of total revenue for the banking segment, experienced growth in ATM and debit card processing services and in in-house maintenance. The increase in maintenance revenue was largely driven by recent acquisition activity. Hardware revenue, which usually carries a lower gross profit margin, decreased by 10%. The mix of revenue combined with improved procedures and overall cost controls allowed us to leverage our resources, resulting in an increase to our profit margin for fiscal 2006 compared to fiscal 2005.

Credit Union Systems and Services	2007	% Change	2006	% Change	2005
Revenue	$110,606	+1%			