GLOBAL PAYMENTS INC
Form 10-K
July 28, 2010

Table of Contents

Index to Financial Statements

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2010

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 001-16111

GLOBAL PAYMENTS INC.

(Exact name of registrant as specified in charter)

Georgia **(State or other jurisdiction of** **incorporation or organization)**	**58-2567903** **(I.R.S. Employer** **Identification No.)**
10 Glenlake Parkway, North Tower, Atlanta, Georgia	**30328-3473**

(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 770-829-8000

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

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	New York Stock Exchange
Series A Junior Participating Preferred Share Purchase Rights	New York Stock Exchange

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

NONE

(Title of Class)

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 whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter was $4,144,679,893.

The number of shares of the registrant s common stock outstanding at July 26, 2010 was 79,262,662 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Specifically identified portions of the registrant s proxy statement for the 2010 annual meeting of shareholders are incorporated by reference in Part III.

Table of Contents

Index to Financial Statements

GLOBAL PAYMENTS INC.

2010 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

Table of Contents

Index to Financial Statements

CAUTIONARY NOTICE REGARDING

FORWARD-LOOKING STATEMENTS

Unless the context requires otherwise, references in this report to Global Payments, the Company, we, us, and our refer to Global Payments and our respective subsidiaries.

We believe that it is important to communicate our plans and expectations about the future to our shareholders and to the public. Some of the statements we use in this report, and in some of the documents we incorporate by reference in this report, contain forward-looking statements concerning our business operations, economic performance and financial condition, including in particular: our business strategy and means to implement the strategy; measures of future results of operations, such as revenue, expenses, operating margins, income tax rates, and earnings per share; other operating metrics such as shares outstanding and capital expenditures; our success and timing in developing and introducing new products or services and expanding our business; and the successful integration of future acquisitions. You can sometimes identify forward looking-statements by our use of the words believes, anticipates, expects, intends, plan, forecast, guidance and similar expressions. Fo statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Although we believe that the plans and expectations reflected in or suggested by our forward-looking statements are reasonable, those statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, many of which are beyond our control, cannot be foreseen and reflect future business decisions that are subject to change. Accordingly, we cannot guarantee you that our plans and expectations will be achieved. Our actual revenues, revenue growth rates and margins, other results of operations and shareholder values could differ materially from those anticipated in our forward-looking statements as a result of many known and unknown factors, many of which are beyond our ability to predict or control. These factors include, but are not limited to, those set forth in Item 1A Risk Factors of this report, those set forth elsewhere in this report and those set forth in our press releases, reports and other filings made with the Securities and Exchange Commission, or SEC. These cautionary statements qualify all of our forward-looking statements, and you are cautioned not to place undue reliance on these forward-looking statements.

Our forward-looking statements speak only as of the date they are made and should not be relied upon as representing our plans and expectations as of any subsequent date. While we may elect to update or revise forward-looking statements at some time in the future, we specifically disclaim any obligation to publicly release the results of any revisions to our forward-looking statements.

Table of Contents

Index to Financial Statements

PART I

ITEM 1 BUSINESS

General Developments

Financial Highlights

In the year ended May 31, 2010, or fiscal 2010, revenue increased 12% to $1,642.5 million from $1,462.3 million in the year ended May 31, 2009, or fiscal 2009. This revenue growth was primarily due to growth in most of our direct merchant acquiring markets around the world.

Consolidated operating income was $323.3 million for fiscal 2010, compared to $292.5 million for fiscal 2009. Income from continuing operations attributable to Global Payments increased $37.2 million or 22% to $207.2 million ($2.52 per diluted share) in fiscal 2010 from $170.0 million ($2.10 per diluted share) in fiscal 2009, and our operation margin moved from 20% in fiscal 2009 to 19.7% in fiscal 2010. Net income attributable to Global Payments increased $166.1 million, or 446%, to $203.3 million in fiscal 2010 from $37.2 million in the prior year, resulting in a $2.02 increase in diluted earnings per share to $2.48 in fiscal 2010 from $0.46 in fiscal 2009. Fiscal 2009 net income attributable to Global Payments includes an impairment charge of $147.7 million related to our recently disposed money transfer business.

North America merchant services segment revenue increased $113.3 million or 10% to $1,220.1 million in fiscal 2010 from $1,106.9 million in fiscal 2009. North America merchant services segment operating income increased slightly to $275.4 million in fiscal 2010 from $273.0 million in fiscal 2009, with operating margins of 22.6% and 24.7% for fiscal 2010 and 2009, respectively.

International merchant services segment revenue increased $66.9 million or 19% to $422.4 million in fiscal 2010 from $355.5 million in fiscal 2009. International merchant services operating income also increased to $113.7 million in fiscal 2010 from $82.8 million in fiscal 2009, with operating margins of 26.9% and 23.3% for fiscal 2010 and 2009, respectively.

Refer to Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for a detailed explanation of these results.

Fiscal 2010 Disposition

On May 26, 2010, we completed the disposition of our DolEx and Europhil-branded money transfer businesses to an affiliate of Palladium Equity Partners, LLC for $85.0 million. We recognized an estimated pre-tax loss on disposal of $24.6 million. We also recognized $15.7 million of tax benefits associated with the disposition. As a result of our decision to dispose of the money transfer businesses, this segment has been accounted for as a discontinued operation. Amounts related to our discontinued operations in our prior fiscal years statements of income have been reclassified to conform with the presentation in the current fiscal year. Please see Note 3 Discontinued Operations in the notes to the consolidated financial statements for further information.

Fiscal 2010 Acquisitions

HSBC Merchant Services LLP

On June 12, 2009, we purchased the remaining 49% of HSBC Merchant Services LLP from HSBC Bank plc for $307.7 million in cash. We used then existing lines of credit to complete the transaction. These line of credit borrowings were subsequently repaid on July 10, 2009, with proceeds from a $300.0 million term loan agreement. In addition, HSBC extended our current ten-year exclusive marketing alliance agreement under which the bank provides us with merchant referrals and bank sponsorship in the United Kingdom until June 2019.

[Table of Contents](#)

[Index to Financial Statements](#)

Auctionpay, Inc.

On September 28, 2009, we completed the acquisition of Auctionpay, Inc., a provider of fully integrated payment processing and software solutions for fundraising activities for $22.0 million in cash. The purpose of this acquisition was to expand our direct acquiring business into a vertical market that, to date, is still heavily dependent on cash and check as the primary means of payment. Auctionpay, Inc. is currently known as Greater Giving.

Business Description

Global Payments Inc. is a leading provider of electronic payments transaction processing services for consumers, merchants, Independent Sales Organizations (ISO s), financial institutions, government agencies and multi-national corporations located throughout the United States, Canada, the United Kingdom, the Asia-Pacific region, the Czech Republic and the Russian Federation. We serve as an intermediary to facilitate payments transactions and operate in two business segments, North America Merchant Services and International Merchant Services. We were incorporated in Georgia as Global Payments Inc. in September 2000, and we spun-off from our former parent company on January 31, 2001. Including our time as part of our former parent company, we have been in the payments business since 1967.

Our North America Merchant Services and International Merchant Services segments target customers in many vertical industries including financial institutions, gaming, government, health care, professional services, restaurants, retail, universities, nonprofit organizations and utilities. Please see Note 13 in the notes to consolidated financial statements for additional segment information and Item 1A Risk Factors for a discussion of risks involved with our operations.

Merchant Services Overview

Our merchant acquiring services are similar around the world in that we accept a variety of card payments at the point of sale. We conduct our merchant acquiring business using two different business models direct and indirect. In the direct model, merchants are our end customers. We provide our merchant customers with the ability to accept card-based and check payments. The term merchant generally refers to any organization that accepts credit or debit cards for the payment of goods and services. We sell our services through multiple sales channels around the world and target customers in many vertical industries. Card-based payment forms consist of credit, debit, gift, stored value, and electronic benefits transfer cards. Credit and debit card transaction processing includes the processing of the world s major international card brands, including American Express, China Union Pay, Discover, JCB, MasterCard, and Visa, as well as certain domestic debit networks, such as Interac in Canada. Credit and debit card processing involves a consumer or cardholder acquiring goods or services from a merchant and using a credit or debit card as the form of payment. We are the processing intermediary between the merchant, the credit and debit networks and the financial institutions that issue cards. Our comprehensive offerings include terminal sales and deployment, front-end authorization processing, settlement and funding processing, full customer support and help-desk functions, chargeback resolution, industry compliance, PCI security, consolidated billing and statements, and on-line reporting. Our value proposition is to provide high quality, responsive, secure and full end-to-end service to all of our customers. Currently, we market direct merchant services in the United States, Canada, the United Kingdom, the Asia-Pacific region and the Russian Federation.

Indirect merchant services provides the same basic products and services as our direct merchant services model, primarily to financial institutions and a limited number of ISOs on an unbundled basis, that in turn resell our products and services to merchants. These services are marketed in the United States, Canada and parts of Eastern Europe, primarily in the Czech Republic and the Russian Federation. We also offer sales, installation and servicing of ATM and point of sale (POS) terminals, and selected card issuing services such as card management and personalization, and provide payment processing for ATM providers and Card Issuers, through Global Payments Europe and ZAO United Card Service (UCS), which are also components of indirect merchant services.

Table of Contents

Index to Financial Statements

Direct merchant services revenue is generated on services primarily priced as a percentage of transaction value, whereas indirect merchant services revenue is generated on services primarily priced as a specified fee per transaction. In both merchant services models, we also charge other fees unrelated to the number of transactions or the transaction value.

Credit and Debit Card Transaction Processing

Credit and debit networks establish uniform regulations that govern much of the industry. During a typical card transaction, the merchant and the card issuer do not interface directly with each other, but instead rely on merchant acquirers. Merchant acquirers are typically financial institutions or independent processors like Global Payments. Global Payments performs a series of services including authorization, electronic draft capture, file transfers to facilitate the funds settlement and certain exception-based, back office support services such as chargeback and retrieval resolution.

Electronic draft capture is the process of transferring sales draft data into an electronic format so that it may be sent through networks for clearing and settlement. The card networks, primarily Visa, MasterCard, and Discover, use a system known as interchange in the case of credit and signature debit cards for this purpose. Financial institutions use the debit networks for PIN-based debit cards to transfer the information and funds between the card issuers and merchant acquirers to complete the link between merchants and card issuers. Debit card payments differ slightly from traditional credit card transactions in that the cardholder is required to have sufficient funds available in a deposit account at the time of the transaction, or the debit card transaction will not be authorized. PIN-based debit transactions are sent through a debit network while signature-based debit or check card transactions, which are offered exclusively in the United States, are sent through Visa and MasterCard and require a signature at the time of purchase. Also, PIN-based debit transactions typically deduct the purchase amount from the cardholder s deposit account within a day of the purchase, depending on the time of the purchase. Signature-based debit, or check card transactions typically debit the cardholder s deposit account two to three days after the purchase, although the funds are held with a memo posted to the cardholder s bank account. A credit card transaction posts to a cardholder s account, reducing the available credit limit in a similar manner.

In order to provide credit and signature-based debit card transaction processing services, we must be designated as a certified processor by MasterCard and Visa in addition to being a Merchant Service Provider by MasterCard and an Independent Sales Organization by Visa. Currently, these designations are dependent upon member clearing banks of either organization sponsoring us and our adherence to the standards of the Visa and MasterCard networks. A financial institution that is a member of the Visa and/or MasterCard card networks (which we refer to in this discussion as Member) must sponsor an electronic transaction payment processor such as Global Payments. We have five primary financial institution sponsors in the United States, Canada, the United Kingdom, the Asia-Pacific region and the Russian Federation with whom we have sponsorship or depository and processing agreements. These agreements allow us to route Visa and MasterCard transactions under the member banks control and identification numbers to clear credit card transactions through Visa and MasterCard. Visa and MasterCard set the standards with which we must comply.

We also provide credit card transaction processing for Discover Financial Services or Discover Card (Discover) and are designated as an acquirer by Discover. This designation provides us with a direct relationship between us and Discover, and therefore a Member sponsorship is not required. Our agreement with Discover allows us to route and clear transactions directly through Discover s network. Otherwise, we process Discover transactions similarly to the way we process MasterCard and Visa transactions. Discover publishes acquirer operating regulations with which we must comply. We use our Members to assist in funding merchants for Discover transactions.

How a Card Transaction Works

A card transaction begins when a cardholder presents a card for payment at a merchant location where the card information is captured by a POS terminal card reader, which may be provided by Global Payments.

Table of Contents

Index to Financial Statements

Alternatively, card and transaction information may be captured and transmitted to our network through a POS device by one of a number of products that we offer directly or through a value added reseller. The terminal electronically records sales draft information, such as the credit card identification number, transaction date and value of the goods or services purchased.

After the card and transaction information is captured by the POS device, the terminal automatically either dials a pre-programmed phone number or otherwise connects to our network through the internet or other communication in order to receive authorization of the transaction. For a credit card transaction, authorization services generally refer to the process in which the card issuer indicates whether a particular credit card is authentic and whether the impending transaction value will cause the cardholder to exceed defined credit limits. We route the request to the applicable credit or debit network. The credit or debit network forwards the authorization request to the card issuer, who determines a response based on the status of the cardholder s account. The response is returned to the merchant s terminal via the same communication network. This entire authorization and response process occurs within seconds.

Timing differences, interchange expenses, merchant reserves and exception items cause differences between the amount the Member receives from the card networks and the amount funded to the merchants. The standards of the card networks restrict us from performing funds settlement or accessing merchant settlement funds, and, instead, require that these funds be in the possession of the Member until the merchant is funded. However, in practice and in accordance with the terms of our sponsorship agreements with our Members, we generally follow a net settlement process whereby, if the incoming amount from the card networks precedes the Member s funding obligation to the merchant, we temporarily hold the surplus on behalf of the Member, in a joint deposit account or in an account at the Member bank, and record a corresponding liability. Conversely, if the Member s funding obligation to the merchant precedes the incoming amount from the card networks, the amount of the Member s net receivable position is either subsequently advanced to the Member by us or the Member satisfies this obligation with its own funds. If the Member uses its own funds, the Member assesses a funding cost. Each participant in the transaction process receives compensation for its services.

As an illustration, on a $100.00 credit card transaction, the card issuer may fund the Member $98.50 after retaining approximately $1.50 referred to as an interchange fee or interchange expense. The card issuer seeks reimbursement of $100.00 from the cardholder in the cardholder s monthly credit card bill. The Member would, in turn, pay the merchant $100.00. The net settlement after this transaction would require Global Payments to advance the Member $1.50. After the end of the month, we would bill the merchant a percentage of the transaction, or discount, to cover the full amount of the interchange fee and our net revenue from the transaction. If our net revenue from the merchant in the above example was 0.5%, we would bill the merchant $2.00 at the end of the month for the transaction, reimburse ourselves for approximately $1.50 in interchange fees and retain $0.50 as our net revenue for the transaction. Our gross profit on the transaction reflects the net revenue less operating expenses, including the network and systems cost to process the transaction (including assessments) and commissions paid to our sales force or ISO. Assessments are fees charged by Visa and MasterCard based on the dollar value of transactions processed through their networks.

North America Merchant Services Segment

North America merchant services revenues represent 74% of our total consolidated fiscal 2010 revenues and include operations in the United States and Canada. In the United States, we sell our services via ISOs, a direct sales force, trade associations, agent and VAR referral arrangements, as well as proprietary telesales groups.

Our ISO channel targets a variety of merchant types with typical annual bankcard volumes of $150,000 or less. The ISOs contract with Global Payments to provide processing and other services depending on the ISOs requirements. These contracts are multi-year and priced by service on a per transaction basis. The ISOs act as a third-party sales group selling Global Payments-branded merchant acquiring products and services, with the majority of Global s ISOs marketing direct merchant acquiring. Because Global Payments is a primary party to

Table of Contents

Index to Financial Statements

the merchant contract as a result of our bank sponsor relationship, the full amount of fees collected from the merchant is recorded as revenue. The excess of revenue earned over the ISO contractual transaction fee (plus assessments) is remitted to the ISO in the form of a residual payment on a monthly basis and is recorded in Sales, general and administrative expenses.

Our direct sales channel receives qualified leads from our agent bank, value added reseller and trade association referral partners signing a variety of mid-to-large sized merchants with annual bankcard volume on average above $300,000. Our sales force is paid a combination of base salary and commission.

Our United States revenue also includes check and gaming services and indirect merchant services. Our check products offer merchant customers risk management alternatives, in the case of our verification and recovery offerings, or risk elimination, in the case of our guarantee offerings, by leveraging our internal and external databases of checkwriters to help decide whether the merchant should accept a check as the form of payment from a particular checkwriter. Our check services products are part of our direct merchant service offering.

Check guarantee services include comprehensive check verification and guarantee services designed for a merchant s specific needs and risk adversity. This service guarantees payment of all checks that are electronically verified. If a verified check is dishonored, our service generally provides the merchant with reimbursement of the check s face value, and then we pursue collection of the check through our internal collection services. While we have the right to collect the full amount of the check from the checkwriter, we have historically recovered less than 100% of the guaranteed checks. We derive revenue for these services primarily by charging the merchant a percentage of the face value of each guaranteed check. Check verification and recovery services are similar to those provided in the check guarantee service, except that these services do not guarantee payment of the verified checks. We derive revenues for these services primarily from the service fees collected from delinquent check writers, fees charged to merchants based on a transaction rate per verified check and fees charged to merchants for specialized services such as electronic re-deposits of dishonored checks.

In the specialized vertical market of gaming, our VIP LightSpeed proprietary software and VIP Preferred Advantage product provide the gaming industry with the tools necessary to establish revolving check cashing limits for a casino s customers. Our gaming products allow fast access to cash with high limits so that gaming establishments can increase the flow of money to their gaming floors and reduce risk. We derive revenue from our gaming products primarily based on a percentage of the transaction value.

In Canada we sell our services primarily through our direct sales force leveraging our bank referral relationships. Unlike the United States, approximately 60% of payment transactions in Canada are PIN-based debit transactions, primarily through Interac.

International Merchant Services Segment

International merchant services revenues represent 26% of our total consolidated fiscal 2010 revenues and include operations in Europe and the Asia-Pacific region. Our business in Europe is primarily located in the United Kingdom, the Czech Republic and the Russian Federation. Our Asia-Pacific region includes the following eleven countries and territories: Brunei, China, Hong Kong, India, Macau, Malaysia, Maldives, the Philippines, Singapore, Sri Lanka and Taiwan. We have a direct sales force in the United Kingdom, the Russian Federation and the Asia-Pacific region through which we primarily sell our direct merchant acquiring services while leveraging our bank referral relationships. In the Czech Republic and the Russian Federation we also provide indirect merchant acquiring services.

Table of Contents

Index to Financial Statements

Total revenues from our segments, by geography, are as follows (amounts in thousands):

	Year Ended May 31, 2010	2009	2008
Revenues:			
United States	$ 902,844	$ 805,557	$ 731,214
Canada	317,272	301,294	267,249
North America merchant services	1,220,116	1,106,851	998,463
Europe	315,023	265,121	59,778
Asia-Pacific	107,329	90,334	72,367
International merchant services	422,352	355,455	132,145
Consolidated revenues	$ 1,642,468	$ 1,462,306	$ 1,130,608

Industry Overview and Target Markets

Industry Overview

Payment processing service providers offer high-volume electronic transaction payment processing and support services directly to financial institutions, merchants, multinational corporations, and ISOs. Generally, the payment processing market in the United States and Canada continues to transition from traditional financial institution providers to independent merchant acquirers such as Global Payments. We believe merchants seek more efficient distribution channels, as well as increased technological capabilities required for the rapid and efficient creation, processing, handling, storage and retrieval of information.

Based on *The Nilson Report*, dated March 2010, we are a leading mid-market and small-market merchant acquirer in the United States and we compete with First Data Corporation, Bank of America Merchant Services, Chase Paymentech and Elavon.

In Canada, we have a significant market share second to our primary competitor, Moneris Solutions. Moneris Solutions is a joint venture between the Royal Bank of Canada and the Bank of Montreal. We also consider Chase Paymentech Solutions and TD Merchant Services to be major competitors in the Canadian market.

In the European and Asia-Pacific regions, financial institutions remain the dominant providers of payment processing services to merchants, although the outsourcing of merchant processing services to third party service providers is becoming more prevalent. Processing services have become increasingly complex, requiring significant capital commitments to develop, maintain and update the systems necessary to provide these advanced services at a competitive price.

Our primary competitors in the United Kingdom are the Royal Bank of Scotland and Barclays. The Russian Federation payments market is highly fragmented and our competition is made up of various financial institutions, including Sberbank, Alfa Bank, VTB, Raiffeisen Bank, and Russian Standard Bank. In the Czech Republic, our primary competitors are First Data, SiNSYS, and Euronet. In the Asia-Pacific region, our primary competition is from financial institutions that offer merchant acquiring services as well as Merchant Solutions, which is a joint venture between First Data and Standard Chartered PLC.

As a result of continued growth in our industry, several large merchant acquirers, including us, have expanded operations both domestically and internationally. This expansion has come in the form of acquisitions and the creation of alliances and joint ventures. We believe that the electronic payment transaction processing industry will continue to consolidate as banks and independent processors that do not have the necessary infrastructure to participate in a highly competitive environment look to exit the business.

Table of Contents

Index to Financial Statements

In the Canadian market, Visa, MasterCard and Interac are planning to migrate to cards containing chip technology over the coming years. Chip card technology is already prevalent in the European and Asia-Pacific markets. Chip technology provides the ability to process payment transactions securely by protecting the cardholder information in an encrypted and confidential manner. The chip is difficult to copy and has the additional capacity to be personalized by a card issuer, including the ability to be programmed with spending and usage limits, making it possible to authorize some transactions off-line. Chip technology can also help enable a variety of additional card features including applications such as loyalty, access control, rewards and public transit passes. We expect that it will take multiple years for all participants to implement the equipment necessary to accept and process the chip card compliant transactions in the Canadian marketplace. We have a plan to ensure our merchants will benefit from the migration to chip technology in the Canadian market. We are well into the enablement of chip card technology for company-owned terminals in the Canadian market.

We believe the number of electronic transactions will continue to grow in the future and that an increasing percentage of these transactions will be processed through emerging technologies. To help our customers reduce their transaction costs and accelerate the transaction approval process, we have integrated new technologies into our service offerings such as internet protocol communications and check truncation or conversion at the point of sale. If new technologies like radio frequency identification or contactless payment cards continue to evolve and are desired by merchants and consumers, we plan to continue developing new products and services that will exploit the benefits that these new technologies can offer our customers. We also believe that new markets will continue to develop in areas that have been previously dominated by paper-based transactions. Industries such as quick service restaurants, government, recurring payments, and business-to-business should continue to see transaction volumes migrate to more electronic-based settlement solutions. We believe that the continued development of new products and services and the emergence of new vertical markets will be a factor in the growth of our business for the foreseeable future.

Target Markets

We believe that significant global opportunities exist for growth in the application of electronic transaction payment processing services. Although the United States accounts for the largest payment processing volume in the world, global expansion by financial institutions into new geographies and the increased recognition by governments of the role of payment cards in facilitating economic growth are rapidly transforming the electronic commerce market into a global opportunity.

The growth of retail credit card transactions, as well as the rapid growth in the utilization of debit cards, correlates with the historic growth of our business. According to *The Nilson Report* dated April 2010, worldwide annual general purpose card purchase volume increased 8% to $7.6 trillion in 2009. General purpose cards include the major card networks brands such as Visa, MasterCard, American Express, Discover, China Union Pay, JCB, and Diners Club. In Canada, general purpose cards also include Interac debit cards.

The Nilson Report dated February 2010 estimates that more than $3.0 trillion of annual consumer spending was charged in 2009 using general purpose cards in the United States, a 3% decrease from 2008. Based on *The Nilson Report* dated February 2010, the United States industry mix of Visa and MasterCard debit and credit purchase transactions are approximately 67% and 33%, respectively. *The Nilson Report* dated March 2010 reported that $410.3 billion (U.S.) of annual Canadian consumer spending uses general purpose cards as the form of payment, representing a decrease of 1% from 2008. Also based on *The Nilson Report* dated March 2010, Canadian Visa and MasterCard debit card purchase transactions are approximately 42% while Interac debit cards purchase transactions are 58%. *The Nilson Report* dated May 2010 estimates that $1.9 trillion of annual consumer spending was charged in 2009 using general purpose cards in Europe, a 4.8% increase from 2008. The industry mix in the United Kingdom based on the United Kingdom purchase Transaction Payments Authority for Visa and MasterCard debit and credit cards are approximately 76% and 24%, respectively.

Table of Contents

Index to Financial Statements

We process in eleven countries and territories in the Asia-Pacific region. These markets include almost 40% of the world s population and 71% of the total Asia-Pacific population according to the *CIA World Factbook*. These markets are largely cash based. We believe there are significant, long-term growth opportunities for payment processing in this region.

Strategy

We seek to leverage the rapid adoption of, and transition to, card based payments by expanding market share in our existing markets through our distribution channels or through acquisitions in North America, the Asia-Pacific region and Europe, and investing in and leveraging technology and people, thereby maximizing shareholder value. We also seek to enter new markets through acquisitions in the Asia-Pacific region, Europe, and the Americas. We intend to accomplish this overall strategy as follows:

Existing offerings

We intend to increase our penetration of existing markets and to further leverage our infrastructure. Our objectives include:

- expand our direct merchant services distribution channels, primarily our existing sales force, ISOs, OEMs, value added resellers and other referral relationships;

- provide the best possible customer service at levels that exceed our competitors by investing in technology, training and product enhancements;

- grow our direct merchant services market share in the United States, Canada, the United Kingdom, the Asia-Pacific region and the Russian Federation by concentrating on the small and mid-market merchant segments, while selectively targeting national merchants that meet our profitability criteria;

- provide the latest, secure and enhanced products and services by developing value-added applications, enhancing existing products and developing new systems and services to blend technology with our customer needs; and

- pursue potential domestic and international acquisitions or investments in and alliances with companies that have high growth potential or significant market presence and operate in profitable sectors of payments-related industries through compatible products and services, and development and distribution capabilities.

International markets

We intend to focus on further diversification in international markets with high payments industry growth or targets with significant market presence, such as Europe, the Asia-Pacific region and South America. We are evaluating these markets based on the following attractive characteristics:

- currently low but growing credit and debit card utilization;
- the absence of a dominant merchant acquirer or processor.

Infrastructure

Our focus on our existing infrastructure will center on attracting, developing and retaining talent to execute our strategy and migrate our systems to leading edge technology. We intend to continue systems integrations, primarily the consolidation of our front-end operating platforms and the migration/conversion of our back-end operating platforms.

We continue to make progress on our next generation technology processing platform, referred to as G2. This platform is planned to be a new front-end operating environment for our merchant processing in the United States,

Table of Contents

Index to Financial Statements

Asia-Pacific, the United Kingdom, and Canada and is intended to replace several legacy platforms that have higher cost structures. Aside from cost advantages, there are other benefits to this new platform, such as increased speed to market of new products, ease of scalability, enhanced reporting options, hardware environment flexibility and enhanced compliance with standards and regulations. In addition, the platform is designed as a potential integration platform for future acquisitions. We are currently processing transactions on our G2 platform in seven markets in our Asia-Pacific region and we have begun the process of supporting the United States.

Employees

As of May 31, 2010, we had 3,592 employees. Many of our employees are highly skilled in technical areas specific to electronic transaction payment processing. We believe that our current and future operations depend substantially on retaining our key technical employees.

Where to Find More Information

We file annual and quarterly reports, proxy statements and other information with the U.S. Securities and Exchange Commission, or the SEC. You may read and print materials that we have filed with the SEC from its website at www.sec.gov. In addition, certain of our SEC filings, including our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to them can be viewed and printed from the investor information section of our website at www.globalpaymentsinc.com free of charge. Certain materials relating to our corporate governance, including our senior financial officers code of ethics, are also available in the investor information section of our website. Copies of our filings, specified exhibits and corporate governance materials are also available, free of charge, by writing us using the address on the cover of this Form 10-K. You may also telephone our investor relations office directly at (770) 829-8234. We are not including the information on our website as a part of, or incorporating it by reference into, this report.

Our SEC filings may also be viewed and copied at the following SEC public reference room, and at the offices of the New York Stock Exchange, where our common stock is quoted under the symbol GPN.

SEC Public Reference Room

100 F Street, N.E.

Washington, DC 20549

(You may call the SEC at 1-800-SEC-0330 for further information on the public reference room.)

NYSE Euronext

20 Broad Street

New York, NY 10005

Table of Contents

Index to Financial Statements

ITEM 1A RISK FACTORS

Our revenues from the sale of services to merchants that accept Visa cards and MasterCard cards are dependent upon our continued Visa and MasterCard registration and financial institution sponsorship.

In order to provide our Visa and MasterCard transaction processing services, we must be registered as a merchant processor of MasterCard and Visa. These designations are dependent upon our being sponsored by member clearing banks of both organizations. If our sponsor banks should stop providing sponsorship for us, we would need to find another financial institution to provide those services or we would need to establish our own wholly owned financial institution in such region that could serve as a sponsor, either of which could prove to be difficult and/or more expensive. If we are unable to find a replacement financial institution to provide sponsorship (whether through a third party or through the establishment of our own wholly owned financial institution) we may no longer be able to provide processing services to the affected customers which would negatively impact our revenues and earnings.

In June 2010, Canadian Imperial Bank of Commerce, CIBC, provided us with notice that it would not renew our agreement with them, under which CIBC provides sponsorship for Visa in Canada, after the expiration of the initial ten year term. As a result, our Canadian Visa sponsorship will expire in March 2011. We are pursuing alternatives to CIBC s sponsorship, including filing an application with the Canadian regulatory authorities for the formation of a wholly owned loan company in Canada which could serve as our financial institution sponsor and negotiating with other financial institutions. The failure to establish a wholly owned loan company that can serve as our Visa sponsor in Canada or to secure a new sponsorship relationship with another financial institution that would replace the arrangement that we currently have with CIBC would likely result in the loss of Visa merchant customers in Canada and lead to a material reduction in our revenues and earnings.

If we fail to comply with the applicable requirements of the card networks, they could seek to fine us, suspend us or terminate our registrations. If our merchants or ISOs incur fines or penalties that we cannot collect, we could end up bearing them.

In order to provide our transaction processing services, several of our subsidiaries are registered with Visa and MasterCard as service providers for member institutions and with other networks. As such, we are subject to card association and network rules that could subject us to a variety of fines or penalties that may be levied by the card networks for certain acts or omissions. The rules of the card networks are set by their boards, which may be influenced by banks that own their stock and, in the case of Discover by the card issuers, and some of those banks and issuers are our competitors with respect to these processing services. The termination of our registrations or our status as a service provider, or any changes in card association or other network rules or standards, including interpretation and implementation of the rules or standards, that increase the cost of doing business or limit our ability to provide transaction processing services to our customers, could have a material adverse effect on our business, operating results and financial condition. If a merchant or an ISO fails to comply with the applicable requirements of the card associations and networks, it could be subject to a variety of fines or penalties that may be levied by the card associations or networks. If we cannot collect such amounts from the applicable merchant or ISO, we could end up bearing such fines or penalties, resulting in lower earnings for us.

Security breaches could harm our reputation and adversely affect future earnings

We collect and store sensitive data about merchants, including names, addresses, social security numbers, drivers license numbers, and checking account numbers. In addition, we maintain a database of cardholder data relating to specific transactions, including bankcard numbers, in order to process the transactions and for fraud prevention. We process that data and deliver our products and services by utilizing computer systems and telecommunications networks operated both by us and by third party service providers. Although plans and procedures are in place to protect this sensitive data, we cannot be certain that our measures will be successful and will be sufficient to counter all current and emerging technology threats designed to breach our systems in order to gain access to confidential information or our intellectual property.

Table of Contents

Index to Financial Statements

A security breach or other misuse of such data could harm our reputation and deter customers from using our products and services, increase our operating expenses in order to correct the breaches or failures, expose us to unbudgeted or uninsured liability, increase our risk of regulatory scrutiny, result in the imposition of penalties and fines under state, federal and foreign laws or by the card networks, and adversely affect our continued card network registration and financial institution sponsorship.

Our systems and our third-party providers systems may fail which could interrupt our service, cause us to lose business, increase our costs and expose us to liability.

We depend on the efficient and uninterrupted operation of our computer network systems, software, data center and telecommunications networks, as well as the systems and services of third parties. Our systems and operations or those of our third-party providers could be exposed to damage or interruption from, among other things, fire, natural disaster, power loss, telecommunications failure, terrorist acts, war, unauthorized entry, human error, and computer viruses or other defects. Our property and business interruption insurance may not be applicable or adequate to compensate us for all losses or failures that may occur. Defects in our systems or those of third parties, errors or delays in the processing of payment transactions, telecommunications failures or other difficulties could result in loss of revenue, loss of merchants, loss of merchant and cardholder data, harm to our business or reputation, exposure to fraud losses or other liabilities, negative publicity, additional operating and development costs, and/or diversion of technical and other resources. We perform the vast majority of disaster recovery operations ourselves, though we utilize select third parties for some aspects of recovery. To the extent we outsource our disaster recovery, we are at risk of the vendor s unresponsiveness in the event of breakdowns in our systems.

Utility and system interruptions could adversely affect our operations.

In order to process transactions promptly, our computer equipment and network servers must be functional on a 24-hour basis, which requires access to telecommunications facilities and the availability of electricity, which are susceptible to disruption. Any resulting disruptions in our processing services could cause us to incur substantial additional expense and the loss of customers, which could have an adverse affect on our operations and financial condition.

We may experience software defects, undetected errors, and development delays, which could damage customer relations, decrease our potential profitability and expose us to liability.

Our products are based on sophisticated software and computing systems that often encounter development delays, and the underlying software may contain undetected errors or defects. Defects in our software products and errors or delays in our processing of electronic transactions could result in additional development costs, diversion of technical and other resources from our other development efforts, loss of credibility with current or potential customers, harm to our reputation, or exposure to liability claims.

In addition, we rely on technologies supplied by third parties that may also contain undetected errors, viruses or defects that could have a material adverse effect on our business, financial condition and results of operations.

Loss of key Independent Sales Organizations could reduce our revenue growth.

Our ISO sales channel, which purchases and resells our end-to-end services to its own portfolio of merchant customers, is a strong contributor to our revenue growth in our North America merchant services segment. If an ISO switches to another transaction processor, shuts down or becomes insolvent, we will no longer receive new merchant referrals from the ISO, and we risk losing existing merchants that were originally enrolled by the ISO, all of which could negatively affect our revenues and earnings.

Table of Contents

Index to Financial Statements

Risks associated with operations outside the United States could adversely affect our business, financial position and results of operations.

We have a number of foreign subsidiaries whose functional currency is their local currency. We are subject to the risk that currency exchange rates between these regions and the United States will fluctuate, potentially resulting in a loss of some of our revenue and earnings when such amounts are exchanged into United States dollars. Volatility in currency exchange rates has affected and may continue to affect our financial results. For example, for fiscal year 2010, currency exchange rate fluctuations increased our revenues by $16.5 million and our earnings by $0.10 per diluted share. We do not use forward contracts or other derivative instruments to mitigate the risks associated with currency exchange risk.

In addition, in certain of the jurisdictions in which we operate, we may become subject to exchange control regulations that might restrict or prohibit the conversion of our foreign currency into United States dollars or limit our ability to freely move currency in or out of particular jurisdictions. The occurrence of any of these factors could decrease the value of revenues we receive from our international operations and have a material adverse impact on our business.

Some of our competitors are larger and have greater financial and operational resources than we do, which may give them an advantage in our market with respect to the pricing of our products and services offered to our customers, our ability to develop new technologies, and our ability to complete acquisitions.

We operate in the electronic payments market, which is highly competitive. Our primary competitors in these markets include other independent processors, as well as financial institutions, independent sales organizations, and, potentially, card networks. Many of our competitors are companies who are larger than we are and have greater financial and operational resources than we have. In addition, our competitors that are financial institutions or subsidiaries of financial institutions do not incur the costs associated with being sponsored by a bank for registration with the card networks. These factors may allow them to offer better pricing terms to customers, which could result in a loss of our potential or current customers or could force us to lower our prices as well. Either of these actions could have a significant effect on our revenues and earnings.

In addition, our competitors may have the ability to devote more financial and operational resources than we can to the development of new technologies, including internet payment processing services that provide improved operating functionality and features to their product and service offerings. If successful, their development efforts could render our product and services offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price we could demand for our offerings. Lastly, our competitors may be willing or able to pay more than us for acquisitions, which may cause us to lose certain acquisitions that we would otherwise desire to complete.

We are subject to the business cycles and credit risk of our merchant customers and our independent sales organizations.

The current recessionary economic environment could affect our merchants through a higher rate of bankruptcy filings, resulting in lower revenues and earnings for us. Our merchants are liable for any charges properly reversed by the card issuer on behalf of the cardholder. Our merchants and ISOs are also liable for any fines, or penalties, that may be assessed by any card networks. In the event, however, that we are not able to collect such amounts from the merchants or ISOs, due to merchant fraud, breach of contract, insolvency, bankruptcy or any other reason, we may be liable for any such charges, resulting in lower earnings for us.

Risks associated with reduced levels of consumer spending could adversely affect our revenues and earnings.

Significant portions of our revenue and earnings are derived from fees from processing consumer credit card and debit card transactions. We are exposed to general economic conditions that affect consumer confidence, consumer spending, consumer discretionary income or changes in consumer purchasing habits. A general

13

Table of Contents

Index to Financial Statements

reduction in consumer spending in the United States or any other country where we do business could adversely affect our revenues and earnings. For example, in fiscal year 2010 compared to the prior year, our United States direct credit card average dollar value of transaction, or average ticket, decreased by approximately 8%. We believe this decline, while partially due to a shift toward smaller merchants added through our ISOs, was in part driven by lower consumer spending as a result of a weakened economy. A further weakening in the economy could also force retailers to close resulting in exposure to potential credit losses and future transaction declines. Additionally, credit card issuers have been reducing credit limits, closing accounts, and are more selective with respect to whom they issue credit cards.

We incur chargeback liability when our merchants refuse or cannot reimburse chargebacks resolved in favor of their customers. We cannot accurately anticipate these liabilities, which may adversely affect our results of operations and financial condition.

In the event a billing dispute between a cardholder and a merchant is not resolved in favor of the merchant, the transaction is normally charged back to the merchant and the purchase price is credited or otherwise refunded to the cardholder. If we are unable to collect such amounts from the merchant s account or reserve account (if applicable), or if the merchant refuses or is unable, due to closure, bankruptcy or other reasons, to reimburse us for a chargeback, we bear the loss for the amount of the refund paid to the cardholder. The risk of chargebacks is typically greater with those merchants that promise future delivery of goods and services rather than delivering goods or rendering services at the time of payment. We may experience significant losses from chargebacks in the future. Any increase in chargebacks not paid by our merchants may adversely affect our financial condition and results of operations.

Fraud by merchants or others could have an adverse effect on our operating results and financial condition.

We have potential liability for fraudulent bankcard transactions or credits initiated by merchants or others. Examples of merchant fraud include when a merchant knowingly uses a stolen or counterfeit bankcard or card number to record a false sales transaction, processes an invalid bankcard, or intentionally fails to deliver the merchandise or services sold in an otherwise valid transaction. Criminals are using increasingly sophisticated methods to engage in illegal activities such as counterfeit and fraud. While we have systems and procedures designed to detect and reduce the impact of fraud, we cannot assure the effectiveness of these measures. It is possible that incidents of fraud could increase in the future. Failure to effectively manage risk and prevent fraud would increase our chargeback liability or other liability. Increases in chargebacks or other liability could have an adverse effect on our operating results and financial condition.

In order to remain competitive and to continue to increase our revenues and earnings, we must continually update our products and services, a process which could result in increased research and development costs in excess of historical levels and the loss of revenues, earnings and customers if the new products and services do not perform as intended or are not accepted in the marketplace.

The electronic payments market in which we compete is subject to rapid and significant technological changes. These markets are characterized by technological change, new product introductions, evolving industry standards and changing customer needs. In order to remain competitive, we are continually involved in a number of research and development projects including the development of a new front-end platform for electronic payments processing. These projects carry the risks associated with any research and development effort, including cost overruns, delays in delivery and performance problems. In the electronic payments markets these risks are even more acute. Our markets are constantly experiencing rapid technological change. Any delay in the delivery of new products or services or the failure to differentiate our products and services could render them less desirable to our customers, or possibly even obsolete. In addition, the products and services we deliver to the electronic payments markets are designed to process very complex transactions and deliver reports and other information on those transactions, all at very high volumes and processing speeds. Any failure to deliver an effective and secure product or any performance issue that arises with a new product or service could result in

Table of Contents

Index to Financial Statements

significant processing or reporting errors or other losses. As a result of these factors, our research and development efforts could result in increased costs that could reduce our earnings in addition to a loss of revenue and earnings if promised new products are not timely delivered to our customers or do not perform as anticipated. We also rely in part on third parties, including some of our competitors and potential competitors, for the development and access to new technologies. Our future success will depend in part on our ability to develop or adapt to technological changes and evolving industry standards.

In order for us to continue to grow and increase our profitability, we must continue to expand our share of the existing electronic payments markets and also expand into new markets.

Our future growth and profitability depend upon our continued expansion within the markets in which we currently operate, the further expansion of these markets, the emergence of other markets for electronic transaction payment processing, and our ability to penetrate these markets. As part of our strategy to achieve this expansion, we are continually looking for acquisition opportunities, investments and alliance relationships with other businesses that will allow us to increase our market penetration, technological capabilities, product offerings and distribution capabilities. We may not be able to successfully identify suitable acquisition, investment and alliance candidates in the future, and if we do, they may not provide us with the benefits we anticipated. Once completed, investments and alliances may not realize the value that we expect.

Our expansion into new markets is also dependent upon our ability to apply our existing technology or to develop new applications to meet the particular service needs of each new market. We may not have adequate financial or technological resources to develop effective and secure products and distribution channels that will satisfy the demands of these new markets. If we fail to expand into new and existing electronic payments markets, we may not be able to continue to grow our revenues and earnings.

Any new or changes made to laws, regulations, card network rules or other industry standards affecting our business in any of the geographic regions in which we operate may require significant development efforts or have an unfavorable impact to our financial results.

We are subject to regulations that affect the electronic payments industry in the countries in which we operate. Regulation and proposed regulation of the payments industry has increased significantly in recent years. Failure to comply with regulations may result in the suspension or revocation of a license or registration, the limitation, suspension or termination of service, and the imposition of civil and criminal penalties, including fines which could have an adverse effect on our financial condition. For example, we are subject to (1) the card network rules of Visa, MasterCard, and other card networks, Interac, and of various debit networks, (2) applicable privacy and information security regulations in the regions where we operate and of the card networks, (3) the Payment Services Directive in Europe, (3) The Code of Conduct for the Credit and Debit Card Industry in Canada (issued by Canada s Department of Finance) (4) Housing Assistance Tax Act of 2008, which requires information returns to be made for each calendar year by merchant acquiring entities starting in 2011, to name a few. We are also subject to examination by the FFEIC (as a result of our provision of data processing services to financial institutions).

Interchange fees (which are typically paid by the acquirer to the issuer in connection with transactions) are subject to increasingly intense legal, regulatory, and legislative scrutiny worldwide. For instance, in the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act has recently been signed into law to regulate the fees charged or received by issuers for processing debit transactions. Regulatory actions such as these, even if not directed at us, may require significant efforts to change our systems and products and may require changes to how we price our services to customers. We cannot predict the impact of any of these changes on our operations and financial condition.

Changes to legal rules and regulations, or interpretation or enforcement thereof, could have a negative financial effect on our business. In addition, even an inadvertent failure to comply with laws and regulations, as well as rapidly evolving social expectations of corporate fairness, could damage our business or our reputation.

Table of Contents

Index to Financial Statements

Increases in credit card network fees may result in the loss of customers or a reduction in our earnings.

From time to time, the card networks, including Visa and MasterCard, increase the fees (interchange and assessment fees) that they charge processors such as us. We could attempt to pass these increases along to our merchant customers, but this strategy might result in the loss of those customers to our competitors who do not pass along the increases. If competitive practices prevent our passing along such increased fees to our merchant customers in the future, we may have to absorb all or a portion of such increases thereby increasing our operating costs and reducing our earnings.

The integration and conversion of our acquired operations, or other future acquisitions, if any, could result in increased operating costs if the anticipated synergies of operating both businesses as one are not achieved, a loss of strategic opportunities if management is distracted by the integration process, and a loss of customers if our service levels drop during or following the integration process.

The acquisition, integration, and conversion of businesses involves a number of risks. Core risks are in the area of valuation (negotiating a fair price for the business based on inherently limited diligence) and integration and conversion (managing the complex process of integrating the acquired company s people, products, technology, and other assets to realize the projected value of the acquired company and the synergies projected to be realized in connection with the acquisition). In addition, international acquisitions often involve additional or increased risks including, for example: managing geographically separated organizations, systems, and facilities; integrating personnel with diverse business backgrounds and organizational cultures; complying with foreign regulatory requirements; fluctuations in currency exchange rates; enforcement of intellectual property rights in some foreign countries; difficulty entering new foreign markets due to, among other things, customer acceptance and business knowledge of those new markets; and general economic and political conditions.

If the integration and conversion process does not proceed smoothly, the following factors, amongst others, could reduce our revenues and earnings, increase our operating costs, and result in a loss of projected synergies:

- If we are unable to successfully integrate the benefits plans, duties and responsibilities, and other factors of interest to the management and employees of the acquired business, we could lose employees to our competitors in the region, which could significantly affect our ability to operate the business and complete the integration;

- If the integration process causes any delays with the delivery of our services, or the quality of those services, we could lose customers to our competitors, which would reduce our revenues and earnings; and

- The acquisition and the related integration could divert the attention of our management from other strategic matters including possible acquisitions and alliances and planning for new product development or expansion into new electronic payments markets.

There may be a decline in the use of credit cards as a payment mechanism for consumers or adverse developments with respect to the credit card industry in general.

If consumers do not continue to use credit cards as a payment mechanism for their transactions or if there is a change in the mix of payments between cash, credit cards and debit cards which is adverse to us, it could have a material adverse effect on our financial position and results of operations. We believe future growth in the use of credit cards will be driven by the cost, ease-of-use, and quality of products and services offered to consumers and businesses. In order to consistently increase and maintain our profitability, consumers and businesses must continue to use credit cards. Moreover, if there is an adverse development in the credit card industry in general, such as new legislation or regulation that makes it more difficult for our customers to do business, our financial position and results of operations may be adversely affected.

Table of Contents

Index to Financial Statements

Continued consolidation in the banking and retail industries could adversely affect our growth.

The current recessionary environment has resulted in multiple bank failures and government-encouraged consolidation. As banks continue to consolidate, our ability to offer our services through indirect channels successfully will depend in part on whether the institutions that survive are willing to outsource their credit and debit card processing to third party vendors and whether those institutions have pre-existing relationships with any of our competitors. Larger banks and larger merchants with greater transaction volumes may demand lower fees which could result in lower revenues and earnings for us.

If we lose key personnel or are unable to attract additional qualified personnel as we grow, our business could be adversely affected.

We are dependent upon the ability and experience of a number of our key personnel who have substantial experience with our operations, the rapidly changing transaction processing industry, and the selected markets in which we offer our services. It is possible that the loss of the services of one or a combination of our key personnel, would have an adverse effect on our operations. Our success also depends on our ability to continue to attract, manage, and retain additional qualified management and technical personnel as we grow. We cannot guarantee that we will continue to attract or retain such personnel.

Our financial results may be adversely affected if we have to impair our intangible assets or goodwill.

As a result of our acquisitions, a significant portion of our total assets consist of intangible assets (including goodwill). Goodwill and intangible assets, net of amortization, together accounted for approximately 38% and 53% of the total assets on our balance sheet as of May 31, 2010 and May 31, 2009, respectively. We may not realize the full fair value of our intangible assets and goodwill. We expect to engage in additional acquisitions, which may result in our recognition of additional intangible assets and goodwill. We evaluate on a regular basis whether all or a portion of our goodwill and other intangible assets may be impaired. Under current accounting rules, any determination that impairment has occurred would require us to write-off the impaired portion of goodwill and such intangible assets, resulting in a charge to our earnings. For example, during fiscal year 2009 we recorded a pre-tax charge of $147.7 million for the impairment of goodwill and intangible assets of our money transfer business, which we sold during fiscal year 2010. Additional impairment charges could adversely affect our financial condition and results of operations.

Unfavorable resolution of tax contingencies or changes to enacted tax rates could adversely affect our tax expense.

We have established contingent liabilities for tax exposures relating to deductions, transactions and other matters involving some uncertainty as to the proper tax treatment of the item. These liabilities reflect what we believe to be reasonable assumptions as to the likely final resolution of each issue if raised by a taxing authority. While we believe that the liabilities are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be finally resolved at a financial cost less than any related liability. An unfavorable resolution, therefore, could negatively impact our results of operations.

We record deferred income taxes to reflect the impact of temporary differences between the amounts of assets and liabilities for financial accounting and income tax purposes. Deferred income taxes are determined using enacted tax rates. Changes in enacted tax rates may negatively impact our results of operations. For example, we have net deferred tax assets associated with our UK business of $87.5 million. The measurement of such deferred tax assets is based, in part, on the current enacted corporate tax in the UK of 28%. The 2010 UK budget announced June 22, 2010 includes a reduction in the corporate tax rate from 28% to 24% over the course of four financial years from April 2011. Upon enactment of these tax rates, which is expected during the first half of our fiscal year 2011, we estimate that we will record a reduction of our UK deferred tax asset and a corresponding increase to our deferred income tax provision of approximately $9 million.

Table of Contents

Index to Financial Statements

We may become subject to additional United States, state or foreign taxes that cannot be passed through to our merchant services customers, in which case our earnings could be adversely affected.

Payment processing companies like us may be subject to taxation by various jurisdictions on our net income or certain portions of our fees charged to customers for our services. Application of these taxes is an emerging issue in our industry and the taxing authorities have not yet all adopted uniform regulations on this topic. If we are required to pay such taxes and are not able to pass the tax expense through to our merchant customers, our costs will increase, reducing our earnings.

We have structured our business in accordance with existing tax laws and interpretations of such laws which have been confirmed through either tax rulings or opinions obtained in various jurisdictions including those related to value added taxes in Europe. Changes in tax laws or their interpretations could decrease the value of revenues we receive, the amount of our cash flow, and have a material adverse impact on our business.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our annual report. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.

Further, this assessment may be complicated by any acquisitions we may complete. In the United Kingdom and certain markets in the Asia-Pacific region, HSBC performs payment processing operations and related support services pursuant to transition services agreements. We expect that HSBC will continue to provide these services until we integrate these functions into our operations. Until we can integrate the acquisitions financial reporting functions into our own, we will rely on HSBC to provide financial data, such as revenue billed to merchants, to assist us with compiling our accounting records. Accordingly, our internal controls over financial reporting could be materially affected, or are reasonably likely to be materially affected, by HSBC internal controls and procedures. In order to mitigate this risk, we have implemented internal controls over financial reporting which monitor the accuracy of the financial data being provided by HSBC.

While we continue to dedicate resources and management time to ensuring that we have effective controls over financial reporting, failure to achieve and maintain an effective internal control environment could have a material adverse effect on the market s perception of our business and our stock price.

Anti-takeover provisions of our articles of incorporation and by-laws, our rights agreement and provisions of Georgia law could delay or prevent a change of control that individual shareholders favor.

Provisions of our articles of incorporation and by-laws, our rights agreement and provisions of applicable Georgia law may discourage, delay or prevent a merger or other change of control that shareholders may consider favorable. The provisions of our articles and by-laws, among other things:

divide our Board of Directors into three classes, with members of each class to be elected in staggered three-year terms;

limit the right of shareholders to remove directors;

regulate how shareholders may present proposals or nominate directors for election at annual meetings of shareholders; and

authorize our Board of Directors to issue preferred shares in one or more series, without shareholder approval.

Table of Contents

Index to Financial Statements

We may not be able to or we may decide not to pay dividends at a level anticipated by shareholders on our common stock, which could reduce shareholder returns.

The payment of dividends on our common stock in the future is at the discretion of our Board of Directors and will depend on, among other factors, our earnings, stockholder s equity, cash position, and financial condition. No assurance can be given that we will be able to or will choose to pay any dividends in the foreseeable future.

We conduct a portion of our business in various Eastern European and Asia-Pacific countries, and the Russian Federation, where the risk of continued political, economic and regulatory change that could impact our operating results is greater than in the United States.

We expect to continue to expand our operations into various countries in Eastern Europe, and the Asia-Pacific region. Some of these countries, and other foreign countries in which we operate, have undergone significant political, economic and social change in recent years, and the risk of new, unforeseen changes in these countries remains greater than in the United States. In particular, changes in laws or regulations or in the interpretation of existing laws or regulations, whether caused by a change in government or otherwise, could materially adversely affect our business, growth, financial condition or results of operations.

Transmittal of data by electronic means and telecommunications is subject to specific regulation in many countries. Although these regulations have not had a material impact on us to date, changes in these regulations, including taxation or limitations on transfers of data between countries, could have a material adverse effect on our business, growth, financial condition or results of operations.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

The following summarizes the type of facilities we use to operate our business as of May 31, 2010:

Type of Facility	**Leased**	**Owned**
Facilities in the United States:		
Multi-Purpose (Operations, Sales, Administrative)	4	
Operations/Customer Support	2	
Sales and retail branches	2	
	8	

International Facilities:		
Multi-Purpose (Operations, Sales, Administrative)	3	3
Operations/Customer Support	12	
Sales and retail branches	16	
	31	
Total	39	3

Our principal facilities in the United States are located in Atlanta, Georgia and Owings Mills, Maryland. Our principal international facilities are located in Toronto, Canada; Prague, Czech Republic; Leicester, England; London, England; the Hong Kong Special Administrative Region; and Moscow, Russian Federation.

We believe that all of our facilities and equipment are suitable and adequate for our business as presently conducted.

Table of Contents

Index to Financial Statements

ITEM 3 LEGAL PROCEEDINGS

We are party to a number of claims and lawsuits incidental to the normal course of our business. In our opinion, the ultimate outcome of such matters, in the aggregate, will not have a material adverse impact on our financial position, liquidity or results of operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our shareholders during our fourth quarter ended May 31, 2010.

Table of Contents

Index to Financial Statements

PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange under the ticker symbol GPN. The table set forth below provides the intraday high and low sales prices and dividends paid per share of our common stock for the four quarters during fiscal 2010 and 2009. We expect to continue to pay our shareholders a dividend per share, on a quarterly basis, in an amount comparable to the dividends indicated in the table. However, any future determination to pay cash dividends will be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, capital requirements and such other factors as the Board of Directors deems relevant.

	High	Low	Dividend Per Share
Fiscal 2010:			
First Quarter	$ 44.09	$ 35.59	$ 0.02
Second Quarter	54.34	41.96	0.02
Third Quarter	54.52	42.50	0.02
Fourth Quarter	48.96	40.18	0.02
Fiscal 2009:			
First Quarter	$ 49.87	$ 41.51	$ 0.02
Second Quarter	49.39	29.67	0.02
Third Quarter	36.68	30.08	0.02
Fourth Quarter	35.96	27.48	0.02

The number of shareholders of record of our common stock as of July 26, 2010 was 2,476.

Equity Compensation Plan Information

The information regarding our compensation plans under which equity securities are authorized for issuance is set forth in Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Report.

Sale of Unregistered Securities

We have not issued any unregistered securities during our fiscal year ended May 31, 2010.

Table of Contents

Index to Financial Statements

Stock Performance Graph

The following line-graph presentation compares our cumulative shareholder returns with the Standard & Poor s Information Technology Index and the Standard & Poor s 500 Stock Index for the past five years. The line graph assumes the investment of $100 in our common stock, the Standard & Poor s Information Technology Index, and the Standard & Poor s 500 Stock Index on May 31, 2005 and assumes reinvestment of all dividends.

	Global Payments	S&P 500	S&P Information Technology
May 31, 2005	$ 100.00	$ 100.00	$ 100.00
May 31, 2006	134.68	108.64	100.73
May 31, 2007	116.00	133.40	123.93
May 31, 2008	137.07	124.47	127.10
May 31, 2009	104.61	83.93	90.54
May 31, 2010	122.95	101.54	116.32

Issuer Purchases of Equity Securities

On April 23, 2010, our Board of Directors approved a share repurchase program that authorized the purchase of up to $100.0 million of Global Payments stock in the open market or as otherwise may be determined by us, subject to market conditions, business opportunities, and other factors. Under this authorization, as of May 31, 2010, we have repurchased 2,382,890 shares of our common stock at a cost of $100.0 million, or an average of $41.97 per share, including commissions. Repurchased shares are held as treasury stock.

Table of Contents

Index to Financial Statements

The shares repurchased in the fourth quarter of fiscal 2010, the average price paid, including commissions, and the dollar value remaining available for purchase are as follows:

Period	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit) (b)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (d)
March 1, 2010 March 31, 2010		$		
April 1, 2010 April 30, 2010				
May 1, 2010 May 31, 2010	2,382,890	$ 41.97	2,382,890	
Total	2,382,890	$ 41.97	2,382,890	

In addition, we have $13 million remaining under the authorization from our original share repurchase program initiated during fiscal 2007. Repurchased shares were retired and are available for future issuance. We did not repurchase shares under this plan in fiscal 2010. This authorization has no expiration date and may be suspended or terminated at any time.

Table of Contents

Index to Financial Statements

ITEM 6 SELECTED FINANCIAL DATA

You should read the selected financial data set forth below in conjunction with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data included elsewhere in this annual report. As a result of our disposition of the money transfer business, this segment has been accounted for as a discontinued operation. Amounts related to our discontinued operations in our statements of income for fiscal years 2009, 2008, 2007 and 2006 have been reclassified to conform to the presentation in the current fiscal year. The income statement data for fiscal years ended May 31, 2010, 2009, and 2008 are derived from the audited consolidated financial statements included elsewhere in this annual report. The balance sheet data as of May 31, 2010 and 2009 were derived from the audited consolidated financial statements included elsewhere in this annual report. The income statement data for fiscal years 2007 and 2006 and the balance sheet data as of May 31, 2008 and 2007 were derived from consolidated financial statements included in our Form 10-K for the fiscal year ended May 31, 2008. The balance sheet data as of May 31, 2006 was derived from audited consolidated financial statements included in our Form 10-K for the fiscal year ended May 31, 2007

	Year Ended May 31,				
	2010	2009	2008	2007	2006
	(in thousands, except per share data)				
Income statement data:					
Revenue	$ 1,642,468	$ 1,462,306	$ 1,130,608	$ 929,142	$ 788,040
Operating income (1)	323,279	292,546	237,723	203,613	182,347
Income from continuing operations (1)	223,010	207,017	161,198	142,735	122,972
Net income attributable to Global Payments (1)(2)	203,317	37,217	162,754	142,985	125,524
Per share data:					
Basic earnings per share	$ 2.51	$ 0.46	$ 2.04	$ 1.78	$ 1.59
Diluted earnings per share	2.48	0.46	2.01	1.75	1.53
Dividends per share	0.08	0.08	0.08	0.08	0.08
Balance sheet data (at year end):					
Total assets	$ 2,039,326	$ 1,676,821	$ 1,445,907	$ 1,200,629	$ 1,018,678
Borrowings under lines of credit	79,187	10,174	1,527		
Notes payable	421,134	197,003			
Total equity (3)	871,517	678,243	1,054,152	918,811	757,227

(1) Includes impairment, restructuring and other charges of $2,583, $1,317, $3,088, and $1,878 in fiscal 2010, 2008, 2007, and 2006, respectively.

(2) Also includes a pre-tax impairment charge of $147,664 in fiscal 2009 related to our money transfer business that has been reclassified to discontinued operations.

(3) Includes the impact of the retrospective adoption of new accounting guidance concerning noncontrolling interests. See Note 1 of the notes to consolidated financial statements for a more detailed discussion of new accounting pronouncements.

Table of Contents

Index to Financial Statements

ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known and unknown factors, including but not limited to those discussed in Item 1A Risk Factors of this report. See also Cautionary Notice Regarding Forward-Looking Statements located above Item 1 Business.

You should read the following discussion and analysis in conjunction with Item 6 Selected Financial Data and Item 8 Financial Statements and Supplementary Data appearing elsewhere in this annual report.

General

We are a leading provider of electronic payments transaction processing services for consumers, merchants, Independent Sales Organizations (ISOs), financial institutions, government agencies and multi-national corporations located throughout the United States, Canada, the United Kingdom, the Asia-Pacific region, the Czech Republic and the Russian Federation. We serve as an intermediary to facilitate payments transactions and operate in two business segments, North America Merchant Services and International Merchant Services. We were incorporated in Georgia as Global Payments Inc. in September 2000, and we spun-off from our former parent company on January 31, 2001. Including our time as part of our former parent company, we have been in business since 1967.

Our North America Merchant Services and International Merchant Services segments target customers in many vertical industries including financial institutions, gaming, government, health care, professional services, restaurants, retail, universities, nonprofit organizations and utilities.

Our offerings provide merchants, ISOs and financial institutions with credit and debit card transaction processing and check-related services. We use two basic business models to market our merchant services offerings. One model, referred to as direct, features a salaried and commissioned sales force, ISOs and independent sales representatives, all of whom sell our end-to-end services directly to merchants. Our other model, referred to as indirect, provides similar basic products and services to financial institutions and a limited number of ISOs on an unbundled basis, who in turn resell our products and services to clients. Both our North America and International merchant services segments utilize a combination of the direct and indirect models.

Direct merchant services revenue is generated on services generally priced as a percentage of transaction value, whereas indirect merchant services revenue is generated on services primarily priced on a specified amount per transaction or per service rendered. In both merchant services models, we also charge other fees unrelated to the number of transactions or the transaction value.

Our products and services are marketed through a variety of sales channels that include a dedicated direct sales force, ISOs, an internal telesales group, retail outlets, trade associations, alliance bank relationships and financial institutions. We seek to leverage the rapid adoption of, and transition to, card based payments by expanding market share in our existing markets through our distribution channels or through acquisitions in North America, the Asia-Pacific region and Europe, and investing in and leveraging technology and people, thereby maximizing shareholder value. We also seek to enter new markets through acquisitions in the Asia-Pacific region, Europe, and South America.

Executive Overview

On May 26, 2010, we completed the disposition of our DolEx and Europhil-branded money transfer businesses to an affiliate of Palladium Equity Partners, LLC for $85.0 million. We recognized an estimated

Table of Contents

Index to Financial Statements

pre-tax loss on disposal of $24.6 million. We also recognized $15.7 million of tax benefits associated with the disposition. As a result of our decision to dispose of the money transfer businesses, this segment has been accounted for as a discontinued operation. Amounts related to our discontinued operations in our prior fiscal years statements of income have been reclassified to conform with the presentation in the current fiscal year. Please see Note 3 Discontinued Operations in the notes to the consolidated financial statements for further information.

On September 28, 2009, we completed the acquisition of Auctionpay, Inc., a provider of fully integrated payment processing and software solutions for fundraising activities. We paid a total of $22.0 million in cash to acquire Auctionpay, Inc. The purpose of this acquisition was to expand our direct acquiring business into a vertical market that, to date, is still heavily dependent on cash and check as the primary means of payment. Auctionpay, Inc. is currently known as Greater Giving.

On June 12, 2009, we completed the purchase of the remaining 49% of HSBC Merchant Services LLP from HSBC Bank plc. Total consideration for such remaining interest was $307.7 million in cash. We used the existing lines of credit to complete the transaction. We acquired our initial majority ownership interest in the LLP on June 30, 2008.

On July 10, 2009, we entered into a new $300.0 million term loan agreement ($230.0 million and £43.5 million) with a syndicate of financial institutions. We used the proceeds of this term loan to pay down our existing credit facility which was used to fund the purchase of our remaining 49% interest in the LLP. The term loan expires in 2012 and has a variable interest rate based on London Interbank Offered Rate plus a margin based on our leverage position.

Revenues increased $180.2 million during fiscal 2010 compared to the prior year. Macroeconomic conditions have caused our average dollar per transaction (average ticket) amounts to decline across our geographic regions compared to the prior year. However, we continue to grow revenue in most of our direct merchant acquiring markets around the world. Our North America merchant services segment reported growth primarily driven by our direct ISO channel which continues to drive expanding market share in the United States as evidenced by our 18% transaction growth compared to the prior year. While our revenues in Canada were affected positively by favorable foreign currency trends, our Canadian business continues to be affected by challenging macroeconomic conditions resulting in reduced spreads due to market-driven pricing pressure as compared to the prior year. Revenues increased 19% in our International merchant services segment compared to the prior year. This growth reflects the impact of our April 30, 2009 acquisition of UCS in the Russian Federation, favorable currency trends in the United Kingdom and business performance in the United Kingdom and in the Asia-Pacific region.

For the fiscal year 2010 currency exchange rate fluctuations increased our revenues by $16.5 million and our earnings by $0.10 per diluted share. To calculate this impact, we converted our fiscal 2010 actual revenues and expenses from continuing operations at fiscal 2009 currency exchange rates. Further fluctuations in currency exchange rates or decreases in consumer spending could cause our results to differ from our current expectations.

Table of Contents

Index to Financial Statements

Results of Operations

Fiscal Year Ended May 31, 2010 Compared to Fiscal Year Ended May 31, 2009

The following table shows key selected financial data for the fiscal years ended May 31, 2010 and 2009, this data as a percentage of total revenues, and the changes between fiscal years in dollars and as a percentage of fiscal 2009.

	2010	% of Revenue (1)	2009	% of Revenue (1)	Change	% Change
			(dollar amounts in thousands)			
Revenues:						
United States	$ 902,844	55%	$ 805,557	55%	$ 97,287	12%
Canada	317,272	19	301,294	21	15,978	5
North America merchant services	1,220,116	74	1,106,851	76	113,265	10
Europe	315,023	19	265,121	18	49,902	19
Asia-Pacific	107,329	7	90,334	6	16,995	19
International merchant services	422,352	26	355,455	24	66,897	19
Total revenues	$ 1,642,468	100%	$ 1,462,306	100%	$ 180,162	12%
Consolidated operating expenses:						
Cost of service	$ 584,609	35.6%	$ 504,855	34.5%	$ 79,754	16%
Sales, general and administrative	734,580	44.7	664,905	45.5	69,675	10
Operating income	$ 323,279	19.7%	$ 292,546	20.0%	$ 30,733	10%
Operating income for segments:						
North America merchant services	$ 275,386		$ 272,972		$ 2,414	1%
International merchant services	113,699		82,763		30,936	37
Corporate	(65,806)		(63,189)		(2,617)	(4)
Operating income	$ 323,279		$ 292,546		$ 30,733	10%
Operating margin for segments:						
North America merchant services	22.6%		24.7%		(2.1)%	
International merchant services	26.9%		23.3%		3.6%	

(1) Percentage amounts may not sum to the total due to rounding.

Revenues

We derive our revenues from three primary sources: charges based on volumes and fees for services, charges based on transaction quantity and equipment sales, leases and service fees. Revenues generated by these areas depend upon a number of factors, such as demand for and price of our services, the technological competitiveness of our product offerings, our reputation for providing timely and reliable service, competition within our industry and general economic conditions. In fiscal 2010, revenues increased 12% to $1,642.5 million compared to the prior year.

North America Merchant Services Segment

In fiscal 2010, revenue from our North America merchant services segment increased 10% to $1,220.1 million compared to the prior year.

We have grown our United States revenue by adding small and mid-market merchants in diversified vertical markets, primarily through our ISO channel. For fiscal 2010, our United States direct credit and debit card processed transactions grew 18%, and our total United States revenue grew 12% compared to the prior year. In

Table of Contents

Index to Financial Statements

fiscal 2010 compared to the prior year, our United States direct credit and debit card average dollar value of transaction, or average ticket, decreased approximately 8%. We believe this decline is due to a combination of lower consumer spending as a result of a weakened economy, the industry shift of increasing debit transactions and a shift toward smaller merchants added through our ISO channel. Smaller merchants tend to have lower average tickets than larger merchants. The effect of consumers replacing cash-based payments with debit card transactions and the increasing acceptance of credit cards for small dollar transactions also lowers our overall average ticket amounts. Based on our mix of merchants, approximately 60% of our United States transactions are comprised of a combination of signature- and PIN-based debit transactions, with PIN-based debit transactions representing less than 10% of our total transactions. Aside from the impact of changes in our average ticket, the remaining differences between our transaction growth and revenue growth are due to our service fees, equipment fees, check-related services and our domestic indirect revenue. Revenue from these services grew at a lesser rate than our credit and debit card transaction growth.

For fiscal 2010, our Canadian revenue increased 5% compared to the prior year. This growth was due to favorable foreign currency trends, offset by challenging macroeconomic conditions which resulted in reduced spreads due to market-driven pricing pressure as compared to the prior year.

International Merchant Services Segment

For fiscal 2010, International merchant services revenue increased 19% to $422.4 million compared to the prior year. Our Europe merchant services revenue for fiscal 2010 increased 19% to $315.0 million compared to the prior year. This growth was primarily due to our April 30, 2009 acquisition of UCS in the Russian Federation, in addition to solid business performance in the United Kingdom.

Asia-Pacific merchant services revenue for fiscal 2010 increased 19% to $107.3 million compared to the prior year period. The growth was primarily due to business performance in the Asia Pacific region driven in part by the increasing penetration of dynamic currency conversion products in the region. The growth for the fiscal 2010 also reflects our acquisition of Global Payments Asia-Pacific Philippines Incorporated on September 4, 2008.

Consolidated Operating Expenses

Cost of service consists primarily of the following costs: operations-related personnel, including those who monitor our transaction processing systems and settlement functions; assessment fees paid to card networks; transaction processing systems, including third-party services such as the costs of settlement channels for transition services paid to HSBC in the Asia-Pacific market and the United Kingdom; network telecommunications capability, depreciation and occupancy costs associated with the facilities performing these functions; amortization of intangible assets; and provisions for operating losses.

Cost of service increased 16% to $584.6 million for fiscal 2010 compared to the prior year s comparable period. As a percentage of revenue, cost of service increased to 35.6% of revenue for the fiscal 2010 from 34.5% for the prior year. The growth in cost of service expenses was due to our UCS acquisition, increases in variable processing expenses such as card network assessments and fees associated with our revenue growth and the impact of our June 30, 2008 acquisition of 51% of HSBC Merchant Services LLP.

Sales, general and administrative expenses consists primarily of salaries, wages and related expenses paid to sales personnel, non-revenue producing customer support functions and administrative employees and management, commissions to independent contractors and ISOs, advertising costs, other selling expenses, share-based compensation expenses and occupancy of leased space directly related to these functions.

Sales, general and administrative expenses increased 10% to $734.6 million for fiscal 2010 compared to the prior year s comparable period. As a percentage of revenue, these expenses decreased to 44.7% for fiscal 2010 compared to 45.5% in the prior year s comparable period.

Table of Contents

Index to Financial Statements

Operating Income and Operating Margin for Segments

For the purpose of discussing segment operations, we refer to operating income as calculated by subtracting segment direct expenses from segment revenue. Overhead and shared expenses, including share-based compensation costs, are not allocated to the segments operations; they are reported in the caption Corporate. Similarly, references to operating margin regarding segment operations mean segment operating income divided by segment revenue.

North America Merchant Services Segment

Operating income in the North America merchant services segment increased 1% to $275.4 million for fiscal 2010 compared to the prior year s comparable period. The operating margin was 22.6% and 24.7% for the fiscal years ended, 2010 and 2009, respectively. Growth in the United States ISO channel reduced margins for fiscal 2010. The ISO channel generally has a dilutive effect on our operating margin compared to our other channels due to the ongoing commission payments to the ISOs.

International Merchant Services Segment

Operating income in the International merchant services segment increased 37% to $113.7 million for fiscal 2010 compared to the prior year s comparable period. The operating margin was 26.9% and 23.3% for the fiscal years ended, 2010 and 2009, respectively. The increase in operating margin is due to the acquisition of HSBC Merchant Services LLP and the higher operating margins in the United Kingdom and expanding margins in the Asia-Pacific region.

Corporate

Our corporate expenses primarily include costs associated with our Atlanta headquarters, insurance, employee incentive programs, and certain corporate staffing areas, including finance, accounting, legal, human resources, marketing, and executive. Our corporate costs increased 4% to $65.8 million for fiscal 2010 compared to the prior year s comparable period.

Consolidated Operating Income

During fiscal 2010, our consolidated operating income increased $30.7 million to $323.3 million compared to the prior year s comparable period. This increase was primarily due to the impact of growth in our International merchant services segment.

Consolidated Other Income/Expense, Net

Other income and expense consists primarily of interest income and interest expense. Other expense, net increased to $12.9 million for fiscal 2010 compared to $0.3 million in the prior year s comparable period. This increase in other expense, net was primarily due to higher debt balances and, to a lesser extent, lower interest income. Interest rates decreased during fiscal 2010 when compared to the prior year. This decline in interest rates partially offset the impact of increased debt balances on interest expense and contributed to lower interest income.

Provision for Income Taxes

Our effective tax rates were 29.6% and 33.0% for fiscal years, 2010 and 2009, respectively. The reductions of our effective tax rates are due to domestic and international tax planning initiatives and the increasing amount of income being generated in lower tax jurisdictions due to international expansion.

Table of Contents

Index to Financial Statements

We have net deferred tax assets associated with our UK business of $87.5 million. The measurement of such deferred tax assets is based, in part, on the current enacted corporate tax in the UK of 28%. The 2010 UK budget announced June 22, 2010 includes a reduction in the corporate tax rate from 28% to 24% over the course of four financial years from April 2011. Upon enactment of these tax rates, which is expected during the first half of our fiscal year 2011, we estimate that we will record a reduction of our UK deferred tax asset and a corresponding increase to our deferred income tax provision of approximately $9 million.

Loss from Discontinued Operations, Net of Tax

During fiscal 2010, we reported a net loss from discontinued operations of $3.9 million ($0.04 diluted loss per share) compared to a net loss of $132.8 million ($1.64 diluted loss per share) in the prior year. The prior year results reflect our pre-tax impairment charge of $147.7 million in our money transfer business during the three months ended February 28, 2009. During fiscal 2010, loss from discontinued operations, net of tax includes an estimated pre-tax loss on disposal of $24.6 million and an income tax benefit associated with the disposal of $15.7 million.

Net Income Attributable to Noncontrolling Interests, Net of Tax

Noncontrolling interests, net of tax decreased to $15.8 million from $37.0 million for the fiscal years 2010 and 2009, respectively. The decrease was due to our June 2009 acquisition of the remaining 49% of HSBC Merchant Services LLP.

Net Income Attributable to Global Payments and Diluted Earnings Per Share

During fiscal 2010 we reported net income of $203.3 million ($2.48 diluted earnings per share).

New Accounting Pronouncements

In December 2009, the Financial Accounting Standards Board (FASB) issued ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 amends prior accounting for variable interests and requires a company to perform an analysis to determine whether its interests give it a controlling financial interest in a variable interest entity. A company must also assess whether it has the power to direct the activities of the variable interest entity and whether it has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. ASU 2009-17 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and expands required disclosures. ASU 2009-17 is effective for our fiscal year beginning June 1, 2010 and is not expected to have an impact on our consolidated financial statements.

On June 1, 2009 we adopted FASB guidance that establishes principles and requirements for how we recognize and measure in our financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest acquired in a business combination. In addition, this guidance establishes principles and requirements for how we recognize and measure the goodwill acquired in the business combination or gain from a bargain purchase, and how we determine what information to disclose to enable financial statement users to evaluate the nature and financial effects of the business combination.

On June 1, 2009, we adopted FASB guidance that applies to the accounting for noncontrolling interests (formerly referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. With the adoption of this guidance, noncontrolling interests that are not redeemable were reclassified from the mezzanine section of the consolidated balance sheet to permanent equity but separate from Global Payments shareholders equity. Income or loss associated with noncontrolling interests is required to be presented separately, net of tax, below net income including noncontrolling interests on the consolidated statement of income. The presentation and disclosure requirements of the guidance have been applied retrospectively.

Table of Contents

Index to Financial Statements

We have a noncontrolling interest that includes redemption provisions that are not solely within our control, commonly referred to as a redeemable noncontrolling interest. This redeemable noncontrolling interest remains in the mezzanine section of the consolidated balance sheet. The guidance allows for a choice of either accreting redeemable noncontrolling interest to its redemption value over the redemption period or recognizing changes in the redemption value immediately as they occur. We have elected to recognize the changes in the redemption value immediately. The presentation and disclosure requirements of the guidance have been applied retrospectively. The retrospective adoption of the guidance resulted in recording the maximum redemption amount of our redeemable noncontrolling interests with a corresponding decrease in retained earnings for all periods presented. Please see Note 12 Noncontrolling Interests in the notes to consolidated financial statements for further information.

On June 1, 2009, we adopted FASB guidance that requires unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be accounted for as participating securities and therefore included in the computation of earnings per share (EPS). Pursuant to the adoption of the guidance, prior period EPS data presented has been adjusted retrospectively. The adoption of the guidance resulted in an immaterial change to our weighted-average shares outstanding but did not affect our earnings per share.

In June 2009, the FASB issued a statement which establishes the FASB Accounting Standards Codification (ASC). The ASC establishes two levels of GAAP authoritative and non-authoritative. The ASC is the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission. Effective for financial statements issued for interim and annual periods ending after September 15, 2009, we adopted the ASC in the second quarter of fiscal 2010. The adoption of the ASC did not impact our consolidated financial statements.

Table of Contents

Index to Financial Statements

Fiscal Year Ended May 31, 2009 Compared to Fiscal Year Ended May 31, 2008

The following table shows key selected financial data for the fiscal years ended May 31, 2009 and 2008, this data as a percentage of total revenues, and the changes between fiscal years in dollars and as a percentage of fiscal 2008.

	2009	% of Revenue (1)	2008	% of Revenue (1)	Change	% Change
			(dollar amounts in thousands)			
Revenues:						
United States	$ 805,557	55%	$ 731,214	65%	$ 74,343	10%
Canada	301,294	21	267,249	24	34,045	13
North America merchant services	1,106,851	76	998,463	88	108,388	11
Europe	265,121	18	59,778	5	205,343	344
Asia-Pacific	90,334	6	72,367	6	17,967	25
International merchant services	355,455	24	132,145	12	223,310	169
Total revenues	$ 1,462,306	100%	$ 1,130,608	100%	$ 331,698	29%
Consolidated operating expenses:						
Cost of service	$ 504,855	34.5%	$ 375,817	33.2%	$ 129,038	34%
Sales, general and administrative	664,905	45.5	515,751	45.6	149,154	29
Impairment, restructuring and other			1,317	0.1	(1,317)	NM
Operating income	$ 292,546	20.0%	$ 237,723	21.0%	$ 54,823	23%
Operating income for segments:						
North America merchant services	$ 272,972		$ 275,355		$ (2,383)	(1)%
International merchant services	82,763		17,674		65,089	368
Corporate	(63,189)		(53,989)		(9,200)	(17)
Impairment, restructuring and other			(1,317)		1,317	NM
Operating income	$ 292,546		$ 237,723		$ 54,823	23%
Operating margin for segments:						
North America merchant services	24.7%		27.6%		(2.9)%	
International merchant services	23.3%		13.4%		9.9%	

(1) Percentage amounts may not sum to the total due to rounding.

NM Not Meaningful

Revenues

In fiscal 2009, revenues increased 29% to $1,462.3 million compared to the prior year. We attribute this revenue growth primarily to our acquisition of 51% of HSBC Merchant Services LLP in our International merchant services segment and to growth in our North America merchant services segment. This growth was partially offset by fluctuations in foreign currency exchange rates. For fiscal 2009, currency exchange rate fluctuations reduced our revenues by $86.9 million.

North America Merchant Services Segment

In fiscal 2009, revenue from our North America merchant services segment increased 11% to $1,106.9 million compared to the prior year. We have continued to grow our United States channel by adding small and mid-market merchants in diversified vertical markets, primarily through our ISOs. For fiscal 2009, our United States direct credit and debit card processed transactions grew 17% and our total United States revenue grew

Table of Contents

Index to Financial Statements

10% compared to the prior year. In fiscal 2009 compared to the prior year, our United States direct credit and debit card average dollar value of transaction, or average ticket, decreased in the high single-digit percentage range. We believe this decline was due to a combination of lower consumer spending as a result of a weakened economy, the industry shift to increasing debit transactions. as well as the shift toward smaller merchants added through our ISO channel. Smaller merchants tend to have lower average tickets than larger merchants. The effect of consumers replacing cash-based payments with debit card transactions also lowers our overall United States average ticket amounts. Based on our mix of merchants, slightly more than half of our United States transactions are comprised of a combination of signature- and PIN-based debit transactions. Aside from the impact of changes in our average ticket, the remaining difference between our transaction growth and revenue growth is due to our service fees, equipment fees, check-related services, and our domestic indirect revenue. Revenue from these services grew at a lower rate than our United States direct credit and debit card transaction growth.

For fiscal 2009, our Canadian revenue grew 13% compared to the prior year period. This growth was primarily due to successful pricing initiatives and, to a lesser extent, transaction growth of 4%, partially offset by an unfavorable Canadian currency exchange rate. In addition, our average ticket in Canada declined in the low single-digit range, which we believe may be partially due to lower consumer spending as a result of a weakened economy.

International Merchant Services Segment

For fiscal 2009, our International merchant services revenue increased 169% to $355.5 million compared to the prior year. In Europe, this growth was primarily due to our acquisition of 51% of HSBC Merchant Services LLP. Revenues attributed to this acquisition were $203.5 million during fiscal 2009. Our Asia-Pacific merchant services revenue for fiscal 2009 increased 25% to $90.3 million compared to the prior year period. Our Asia-Pacific merchant services revenue has grown due to the favorable impact of our acquisition in the Philippines on September 4, 2008, expansion of our customer base, the introduction of new product offerings, and strategic pricing initiatives.

Consolidated Operating Expenses

Cost of service increased 34% to $504.9 million for fiscal 2009 compared to the prior year. The growth in cost of service expenses is primarily due to the acquisition of 51% of HSBC Merchant Services LLP and increases in variable processing expenses, such as card network assessments and fees, associated with our revenue growth.

Sales, general and administrative expenses increased 29% to $664.9 million in fiscal 2009 compared to the prior year. As a percentage of revenue, these expenses increased to 45.5% for fiscal 2009 compared to 45.6% in the prior year. The increase in sales, general and administrative expenses is due to growth in commission payments to ISOs resulting from the increased revenue in this sales channel and the acquisition of 51% of HSBC Merchant Services LLP. The ISO channel generally has a dilutive effect on our operating margin compared to our other channels due to the ongoing commission payments to the ISOs. In addition, during fiscal 2008 we recorded a favorable impact from a non-recurring, non-cash operating tax item of $7.0 million.

Operating Income and Operating Margin for Segments

North America Merchant Services Segment

Operating income in the North America merchant services segment decreased 1% to $273.0 million for fiscal 2009 compared to the prior year. The operating margin was 24.7% and 27.6% for fiscal 2009 and fiscal 2008, respectively. The decrease in operating income in fiscal 2009 was primarily due to the negative impact of the Canadian Dollar exchange rate. In addition, fiscal 2008 reflects a favorable impact of a non-recurring,

Table of Contents

Index to Financial Statements

non-cash operating tax item of $7.0 million. Growth in the ISO channel also negatively impacted fiscal 2009 margins. The ISO channel generally has a dilutive effect on our operating margin compared to our other channels due to the ongoing commission payments to the ISOs.

International Merchant Services Segment

Operating income in the International merchant services segment increased 368% to $82.8 million for fiscal 2009 compared to the prior year. The operating margin was 23.3% and 13.4% for fiscal 2009 and fiscal 2008, respectively. This growth in operating margin and operating income was primarily due to the acquisition of 51% of HSBC Merchant Services LLP in the United Kingdom.

Corporate

Our corporate expenses primarily include costs associated with our Atlanta headquarters, insurance, employee incentive programs, and certain corporate staffing areas, including finance, accounting, legal, human resources, marketing, and executive. Corporate also includes expenses associated with our share-based compensation programs. Our corporate costs increased 17% to $63.2 million for fiscal 2009 compared to the prior year.

Consolidated Operating Income

Consolidated operating income increased 23% to $292.5 million for fiscal 2009 compared to the prior year. This change resulted in an operating margin of 20.0% for fiscal 2009 compared to 21.0% in the prior year. This decrease was primarily due to the unfavorable impact of foreign currency exchange rates somewhat offset by the favorable impact of the HSBC UK acquisition.

Consolidated Other Income/Expense, Net

Other income and expense consists primarily of interest income and interest expense. Other income, net decreased $9.3 million for fiscal 2009 compared to the prior year. This decrease was largely due to lower investment balances and rates of return. Interest rates decreased during fiscal year 2009 when compared to the prior year. This decline in interest rates resulted in lower interest income but also resulted in a decline in interest expense on increased debt balances.

Provision for Income Taxes

Our effective tax rates, reflected as the provision for income taxes divided by income from continuing operations before income tax, including the effect of noncontrolling interest, were 33.0% and 35.6% for fiscal 2009 and fiscal 2008, respectively.

(Loss) income from Discontinued Operations, Net of Tax

During the fiscal 2009, we reported a net loss from discontinued operations of $132.8 million ($1.64 diluted loss per share) compared to a net income of $9.6 million ($0.12 diluted earnings per share) in the prior year. Fiscal 2009 results reflect our pre-tax impairment charge of $147.7 million in our money transfer business.

The downturn in the United States construction market, immigrant labor trends, and overall decrease in economic growth in the United States and Spain contributed to decreased projected future cash flows for our United States and Europe money transfer business. This decrease in projected cash flows resulted in the carrying amounts of these reporting units being greater than the fair values; therefore, goodwill was deemed impaired. Our DolEx trademark in our United States money transfer business was also deemed to be impaired. In addition, we reviewed the long-lived assets of these reporting units for impairment pursuant to the FASB guidance and recorded an impairment charge for certain of our long-lived assets.

Table of Contents

Index to Financial Statements

The following details the impairment charge resulting from our review (in thousands):

		Year Ended May 31, 2009
Goodwill	$	136,800
Trademark		10,000
Other long-lived assets		864
Total	$	147,664

Net Income Attributable to Noncontrolling Interests, Net of Tax

Noncontrolling interest, net of tax increased $28.9 million from $8.1 million fiscal 2008. The increase was primarily related to our acquisition of a 51% majority interest in HSBC Merchant Services, LLP on June 30, 2008.

Net Income Attributable to Global Payments and Diluted Earnings Per Share

During fiscal 2009 we reported net income of $37.2 million ($0.46 diluted earnings per share).

Liquidity and Capital Resources

A significant portion of our liquidity comes from operating cash flows, which are generally sufficient to fund operations, planned capital expenditures, debt service and various strategic investments in our business. Cash flow from operations is used to make planned capital investments in our business, to pursue acquisitions that meet our corporate objectives, to pay dividends, and to pay off debt and repurchase our shares at the discretion of our Board of Directors. Accumulated cash balances are invested in high-quality and marketable short term instruments.

Our capital plan objectives are to support the Company s operational needs and strategic plan for long term growth while maintaining a low cost of capital. Lines of credit are used in certain of our markets to fund settlement and as a source of working capital and, along with other bank financing, to fund acquisitions. We regularly evaluate our liquidity and capital position relative to cash requirements, and we may elect to raise additional funds in the future, either through the issuance of debt, equity or otherwise.

At May 31, 2010, we had cash and cash equivalents totaling $769.9 million. Of this amount, we consider $268.1 million to be available cash, which generally excludes settlement related and merchant reserve cash balances. Settlement related cash balances represent surplus funds that we hold on behalf of our member sponsors when the incoming amount from the card networks precedes the member sponsors funding obligation to the merchant. Merchant reserve cash balances represent funds collected from our merchants that serve as collateral (Merchant Reserves) to minimize contingent liabilities associated with any losses that may occur under the merchant agreement. At May 31, 2010, our cash and cash equivalents included $199.4 million related to Merchant Reserves. While this cash is not restricted in its use, we believe that designating this cash to collateralize Merchant Reserves strengthens our fiduciary standing with our member sponsors and is in accordance with the guidelines set by the card networks. See *Cash and cash equivalents* and *Settlement processing assets and obligations* under Note 1 in the notes to the consolidated financial statements for additional details.

Net cash provided by operating activities increased $82.8 million to $465.8 million for fiscal 2010 from the prior year. Income from continuing operations increased $16.0 million and we had cash provided by changes in working capital of $60.2 million.

The working capital change was primarily due to the change in net settlement processing assets and obligations of $80.3 million and the change in accounts receivable of $13.4 million, partially offset by the change

Table of Contents

Index to Financial Statements

in prepaid expenses and other assets of $18.1 million. The change in net settlement processing assets and obligations is primarily due to timing differences, processed volume changes, exchange rate fluctuations and the reclassification of our Hong Kong settlement funding obligations as further described in Long-Term Debt and Credit Facilities below. The change in accounts receivable is primarily due the impact of our June 30, 2008 acquisition of 51% of HSBC Merchant Services LLP and increased revenues in the United States. The change in prepaid expenses and other assets is primarily due to prepaid income taxes.