

GLOBAL PAYMENTS INC
Form 10-Q
October 08, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2008

OR

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

For the transition period from _____ to _____

Commission file number: 001-16111

GLOBAL PAYMENTS INC.

(Exact name of registrant as specified in charter)

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Georgia (State or other jurisdiction of incorporation or organization)	58-2567903 (I.R.S. Employer Identification No.)
10 Glenlake Parkway, North Tower, Atlanta, Georgia (Address of principal executive offices)	30328-3473 (Zip Code)
Registrant's telephone number, including area code: (770) 829-8000	

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

Indicate by check mark whether the registrant 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares of the issuer's common stock, no par value outstanding as of October 1, 2008 was 80,195,274.

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GLOBAL PAYMENTS INC.

FORM 10-Q

For the quarterly period ended August 31, 2008

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GLOBAL PAYMENTS INC.****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

	Three Months Ended August 31,	
	2008	2007
Revenues	\$ 405,757	\$ 310,980
Operating expenses:		
Cost of service	144,177	116,309
Sales, general and administrative	168,483	127,436
Restructuring		1,003
	312,660	244,748
Operating income	93,097	66,232
Other income (expense):		
Interest and other income	3,371	5,137
Interest and other expense	(2,404)	(1,873)
	967	3,264
Income before income taxes and minority interest	94,064	69,496
Provision for income taxes	(28,216)	(23,783)
Minority interest, net of tax benefit (provision) of \$35 and \$(88), respectively	(8,321)	(2,138)
Net income	\$ 57,527	\$ 43,575
Basic earnings per share	\$ 0.72	\$ 0.54
Diluted earnings per share	\$ 0.71	\$ 0.53

See Notes to Unaudited Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	August 31, 2008 (Unaudited)	May 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 287,721	\$ 456,060
Accounts receivable, net of allowances for doubtful accounts of \$567 and \$489, respectively	138,884	100,179
Claims receivable, net of allowances for losses of \$5,919 and \$6,065, respectively	1,852	1,354
Settlement processing assets	19,532	24,280
Inventory, net of obsolescence reserves of \$833 and \$1,028, respectively	6,576	3,821
Deferred income taxes	4,187	4,119
Prepaid expenses and other current assets	25,968	27,597
Total current assets	484,720	617,410
Property and equipment, net of accumulated depreciation of \$151,009 and \$145,971, respectively	153,533	141,415
Goodwill	762,493	497,136
Other intangible assets, net of accumulated amortization of \$167,315 and \$163,358, respectively	285,590	175,636
Other	13,422	14,310
Total assets	\$ 1,699,758	\$ 1,445,907
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Lines of credit	\$ 10,633	\$ 1,527
Current portion of term loan	25,000	
Payables to money transfer beneficiaries	13,904	9,276
Accounts payable and accrued liabilities	142,167	138,243
Settlement processing obligations	48,344	56,731
Income taxes payable	30,314	11,975
Total current liabilities	270,362	217,752
Term loan	175,000	
Deferred income taxes	70,780	75,001
Other long-term liabilities	14,752	11,612
Total liabilities	530,894	304,365
Commitments and contingencies (See Note 12)		
Minority interest in equity of subsidiaries (includes redeemable minority interests with a book value of \$30,639 and an estimated maximum redemption amount of \$517,025 as of August 31, 2008)	42,203	14,724
Shareholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized and none issued		
Common stock, no par value; 200,000,000 shares authorized; 80,123,032 and 79,636,629 shares issued and outstanding at August 31, 2008 and May 31, 2008, respectively		

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Paid-in capital	387,918	380,741
Retained earnings	677,806	621,875
Accumulated other comprehensive income	60,937	124,202
Total shareholders' equity	1,126,661	1,126,818
Total liabilities and shareholders' equity	\$ 1,699,758	\$ 1,445,907

See Notes to Unaudited Consolidated Financial Statements.

Table of Contents**GLOBAL PAYMENTS INC.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Three Months Ended August 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 57,527	\$ 43,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	9,553	6,663
Amortization of acquired intangibles	7,243	3,566
Share-based compensation expense	3,291	3,147
Provision for operating losses and bad debts	5,614	5,926
Minority interest in earnings	8,357	2,050
Deferred income taxes	934	(1,089)
Other, net	(266)	(20)
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	(41,189)	(12,116)
Claims receivable	(5,445)	(6,265)
Settlement processing assets and obligations, net	(4,206)	(569)
Inventory	(2,500)	(589)
Prepaid expenses and other assets	2,502	(11,573)
Payables to money transfer beneficiaries	4,628	1,355
Accounts payable and accrued liabilities	3,392	(1,044)
Income taxes payable	18,339	5,122
Net cash provided by operating activities	67,774	38,139
Cash flows from investing activities:		
Business and intangible asset acquisitions	(442,123)	(2,625)
Capital expenditures	(7,663)	(9,605)
Proceeds from sale of investment and contractual rights	5,737	
Net cash used in investing activities	(444,049)	(12,230)
Cash flows from financing activities:		
Net borrowings on lines of credit	9,106	133
Proceeds from term loan	200,000	
Proceeds from stock issued under share-based compensation plans	2,910	2,321
Tax benefit from share-based compensation plans	976	2,831
Repurchase of common stock		(67,873)
Dividends paid	(1,596)	(1,622)
Contribution from minority interest holder	8,857	
Distributions to minority interests, net	(2,469)	(2,372)
Net cash provided by (used in) financing activities	217,784	(66,582)
Effect of exchange rate changes on cash	(9,848)	2,345
Decrease in cash and cash equivalents	(168,339)	(38,328)
Cash and cash equivalents, beginning of period	456,060	308,872

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Cash and cash equivalents, end of period	\$ 287,721	\$ 270,544
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See Notes to Unaudited Consolidated Financial Statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business, consolidation and presentation Global Payments Inc. is a high-volume processor of electronic transactions for merchants, multinational corporations, financial institutions, consumers, government agencies and other profit and non-profit business enterprises to facilitate payments to purchase goods and services or further other economic goals. Our role is to serve as an intermediary in the exchange of information and funds that must occur between parties so that a transaction can be completed. We were incorporated in Georgia as Global Payments Inc. in September 2000, and we spun-off from our former parent company in January 2001. Including our time as part of our former parent company, we have provided transaction processing services since 1967.

The unaudited consolidated financial statements include our accounts and the accounts of our majority-owned subsidiaries. These unaudited consolidated financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in the United States and present our financial position, results of operations, and cash flows. Intercompany transactions have been eliminated in consolidation.

We prepared the unaudited consolidated financial statements included herein pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate and the information presented is not misleading. We suggest that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the fiscal year ended May 31, 2008.

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

Revenue recognition

North America and International Merchant Services Segments

Our two merchant services segments primarily include processing solutions for credit cards, debit cards, and check-related services. This revenue is recognized as such services are performed. Revenue for processing services provided directly to merchants is recorded net of interchange fees charged by credit card issuing banks. We use two basic business models to market our merchant services offerings. One model, referred to as "direct" merchant services, features a salaried and commissioned sales force, independent sales organizations, or ISOs, and independent sales representatives, all of whom sell our end-to-end services directly to merchants. Our other model, referred to as "indirect" merchant services, provides the same basic products and services as direct merchant services, primarily to financial institutions and a limited number of ISOs on an unbundled basis, that in turn resell our products and services to merchants. 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 on a specified amount per transaction. In both merchant services models, we also charge other processing fees unrelated to the number of transactions or the transaction value.

Money Transfer Segment

Our money transfer segment primarily includes processing international money transfer transactions. Money transfer revenue is earned on fees charged to customers based on the nature and amount of the transaction performed on the customers' behalf and is recognized at the time of funds transfer. We also earn money transfer revenue on the difference between the retail exchange rate quoted at the time when the money transfer transaction is requested and the wholesale exchange rate at the time when the currency is purchased. This revenue is recognized when the money transfer transaction is processed through the settlement system and the funds are available to the beneficiary, as this is the point in time when the amount of revenue is determinable.

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Cash and cash equivalents Cash and cash equivalents include cash on hand and all liquid investments with an initial maturity of three months or less when purchased. These amounts also include cash that we hold related to reserve funds collected from our merchants (Merchant reserves) that serve as collateral to minimize contingent liabilities associated with charges properly reversed by a cardholder. While this cash is not restricted and can be used in our general operations, we do not intend to use it, as we believe that designating this cash to collateralize Merchant reserves strengthens our fiduciary standing with our member sponsors and is in accordance with guidelines set by the card associations. As of August 31, 2008 and May 31, 2008, our cash and cash equivalents included \$119.5 million and \$131.6 million, respectively, related to Merchant reserves.

Settlement processing assets and obligations In order to provide credit card transaction processing services, we must be designated as a certified processor by MasterCard and Visa, in addition to a Merchant Service Provider by MasterCard and an Independent Sales Organization by Visa. These designations are dependent upon member clearing banks of either organization sponsoring us and our adherence to the standards of the Visa and MasterCard associations. A financial institution that is a member of the Visa and/or MasterCard card associations (the Member) must sponsor an electronic transaction payment processor such as Global Payments. We have four primary financial institution sponsors in the United States, Canada, the United Kingdom and the Asia-Pacific region with whom we have sponsorship or depository and processing agreements. These agreements allow us to route 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. Certain of the member financial institutions of Visa and MasterCard are our competitors.

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 how 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.

Funds settlement refers to the process of transferring funds for sales and credits between card issuers and merchants. Depending on the type of transaction, either the credit card interchange system or the debit network is used to transfer the information and funds between the Member and card issuer to complete the link between merchants and card issuers.

For transactions processed on our systems, we use our network telecommunication infrastructure to deliver funding files to the Member, which creates a file to fund the merchants using country-specific payment networks such as the Federal Reserve's Automated Clearing House system in the United States or the Automated Clearing Settlement System or the Large Value Transfer System in Canada. In our United States portfolio and in most of our Canadian portfolio, merchant funding primarily occurs after the Member receives the funds from the card issuer through the card associations. For certain of our Canadian and Asia-Pacific merchant accounts, the Member funds the merchants before the Member receives the net settlement funds from the card associations, creating a net settlement asset at the Member. In the United Kingdom and the Asia-Pacific region, the Member provides the payment processing operations and related support services on our behalf under a transition services agreement. The Member will continue to provide these operations and services until the integration efforts are completed. After our integration, the Member will continue to provide funds settlement services similar to the functions performed by our Members in the United States and Canada.

Timing differences, interchange expenses, Merchant reserves and exception items cause differences between the amount the Member receives from the card associations and the amount funded to the merchants. The standards of the card associations 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 follow a net settlement process whereby, if the incoming amount from the card associations 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 associations, 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, which is included in interest and other expense on the accompanying unaudited consolidated statements of income. Each participant in the transaction process receives compensation for its services.

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The settlement processing assets and obligations represent intermediary balances arising in our settlement process for direct merchants. Settlement processing assets consist primarily of (i) our receivable from merchants for the portion of the discount fee related to reimbursement of the interchange expense (Interchange reimbursement), (ii) our liability to the Members for transactions for which we have not funded merchants on behalf of the Members but for which we have received funding from the Members, (iii) exception items, such as customer chargeback amounts receivable from merchants (Exception items), and (iv) Merchant reserves held to minimize contingent liabilities associated with charges properly reversed by a cardholder. Settlement processing obligations consist primarily of (i) Interchange reimbursement, (ii) our liability to the Members for transactions for which we have not funded merchants on behalf of the Members but for which we have received funding from the Members, (iii) Exception items, (iv) Merchant reserves, (v) the fair value of our guarantees of customer chargebacks (see *Reserve for operating losses* below), and (vi) the reserve for sales allowances. As of August 31, 2008 and May 31, 2008, our settlement processing assets primarily related to our processing for direct merchants in Canada, while our settlement processing obligations primarily related to our processing for direct merchants in the United States and Asia-Pacific. Our reserve for operating losses and reserve for sales allowance relate to our direct merchant services business model. A summary of these amounts as of August 31, 2008 and May 31, 2008 is as follows:

	August 31, 2008	May 31, 2008
	(in thousands)	
Settlement processing assets:		
Interchange reimbursement	\$ 58,661	\$ 60,734
Liability to Members, net	(21,160)	(19,122)
Exception items	891	717
Merchant reserves	(18,860)	(18,049)
Total	\$ 19,532	\$ 24,280
Settlement processing obligations:		
Interchange reimbursement	\$ 120,855	\$ 123,757
Liability to Members, net	(73,438)	(69,823)
Exception items	8,474	6,722
Merchant reserves	(100,667)	(113,523)
Fair value of guarantees of customer chargebacks	(3,087)	(3,375)
Reserves for sales allowances	(481)	(489)
Total	\$ (48,344)	\$ (56,731)

Reserve for operating losses As a part of our merchant credit and debit card processing and check guarantee services, we experience merchant losses and check guarantee losses, which are collectively referred to as operating losses.

Our credit card processing merchant customers are liable for any charges properly reversed by a cardholder. In the event, however, that we are not able to collect such amount from the merchants, due to merchant fraud, insolvency, bankruptcy or any other merchant-related reason, we may be liable for any such reversed charges based on our Member sponsorship agreements. We require cash deposits, guarantees, letters of credit, and other types of collateral by certain merchants to minimize any such contingent liability. We also utilize a number of systems and procedures to manage merchant risk. We have, however, historically experienced losses due to merchant defaults.

Financial Accounting Standards Board Interpretation No. 45: *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45) requires all guarantees be recorded at their fair value at inception. Our potential liability for the full amount of the operating losses discussed above is a guarantee under FIN 45. We estimate the fair value of these guarantees by adding a fair value margin to our estimate of losses. This estimate of losses is comprised of known losses and a projection of future losses based on a percentage of direct merchant credit card and off-line debit card sales volumes processed. Historically, this estimation process has been materially accurate.

As of August 31, 2008 and May 31, 2008, \$3.1 million and \$3.4 million, respectively, have been recorded to reflect the fair value of guarantees associated with merchant card processing. These amounts are included in settlement processing obligations in the accompanying consolidated balance sheets. The expense associated with the fair value of the guarantees of customer chargebacks is included in cost of service in the

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accompanying unaudited consolidated statements of income. For the three months ended August 31, 2008 and 2007, we recorded expenses for such items in the amounts of \$0.4 million and \$0.7 million, respectively.

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In our check guarantee service offering, we charge our merchants a percentage of the gross amount of the check and guarantee payment of the check to the merchant in the event the check is not honored by the checkwriter's bank in accordance with the merchant's agreement with us. The fair value of the check guarantee is equal to the fee charged for the guarantee service, and we defer this fee revenue until the guarantee is satisfied. We have the right to collect the full amount of the check from the checkwriter but have not historically recovered 100% of the guaranteed checks. Our check guarantee loss reserve is based on historical and projected loss experiences. As of August 31, 2008 and May 31, 2008, we had a check guarantee loss reserve of \$5.9 million and \$6.1 million, respectively, which is included in net claims receivable in the accompanying consolidated balance sheets. The expenses associated with the establishment of such check guarantee loss reserves are included in cost of service in the accompanying unaudited consolidated statements of income. For the three months ended August 31, 2008 and 2007, we recorded expenses of \$4.9 million and \$5.1 million, respectively. The estimated check returns and recovery amounts are subject to the risk that actual amounts returned and recovered in the future may differ significantly from estimates used in calculating the receivable valuation allowance.

As the potential for merchants' failure to settle individual reversed charges from consumers in our merchant credit card processing offering and the timing of individual checks clearing the checkwriters' banks in our check guarantee offering are not predictable, it is not practicable to calculate the maximum amounts for which we could be liable under the guarantees issued under the merchant card processing and check guarantee service offerings. It is not practicable to estimate the extent to which merchant collateral or subsequent collections of dishonored checks, respectively, would offset these exposures due to these same uncertainties.

Property and equipment Property and equipment are stated at cost. Depreciation and amortization are calculated using the straight-line method. Leasehold improvements are amortized over the useful life of the asset. We capitalize the costs related to the development of computer software developed or obtained for internal use in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Maintenance and repairs are charged to operations as incurred.

Goodwill and other intangible assets We completed our most recent annual goodwill and indefinite-life intangible asset impairment test as of January 1, 2008 and determined that no impairment charges were required as of that date.

Other intangible assets primarily represent customer-related intangible assets (such as customer lists and merchant contracts), contract-based intangible assets (such as non-compete agreements, referral agreements and processing rights), and trademarks associated with acquisitions. Customer-related intangible assets, contract-based intangible assets and certain trademarks are amortized over their estimated useful lives of up to 30 years. The useful lives for customer-related intangible assets are determined based primarily on forecasted cash flows, which include estimates for the revenues, expenses, and customer attrition associated with the assets. The useful lives of contract-based intangible assets are equal to the terms of the agreements. The useful lives of amortizable trademarks are based on our plans to phase out the trademarks in the applicable markets. We have determined that the trademarks other than the amortizable trademarks have indefinite lives and, therefore, are not being amortized.

For all periods through November 30, 2006, the straight-line method of amortization was employed for all customer-related intangible assets. On December 1, 2006, we adopted the accelerated method of amortization described below which is applied over the respective periods of expected cash flows for our then significant customer-related intangible assets. These particular assets reflected 90% of the carrying value of our total customer-related intangible assets as of November 30, 2006. In determining amortization expense under our accelerated method for any given period, we calculate the expected cash flows for that period that were used in determining the acquired value of the asset and divide that amount by the expected total cash flows over the estimated life of the asset. We multiply that percentage by the initial carrying value of the asset to arrive at the amortization expense for that period. In addition, if the cash flow patterns that we experience are less favorable than our initial estimates, we will adjust the amortization schedule accordingly. These cash flow patterns are derived using certain assumptions and cost allocations due to a significant amount of asset interdependencies that exist in our business. During fiscal 2008 and the three months ended August 31, 2008, we did not adjust the amortization schedules.

We believe that our accelerated method better approximates the distribution of cash flows generated by our acquired customer relationships. We adopted this method prospectively for our existing significant customer-related intangible assets described above and intend to apply this method to future acquisitions of customer-related intangible assets. The use of this amortization method prior to December 1, 2006 would have resulted in amortization expense that is not materially different from the amount recognized

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under the straight-line method used by us during the same periods. Lastly, we will continue to use the straight-line method of amortization for the certain customer-related intangible assets that reflected 10% of the carrying value of our total such assets as of November 30, 2006. For these assets, the amortization expense using a straight-line method historically resulted in, and is expected to continue to result in, amortization expense that is not materially different from the amount that would be recognized under the accelerated method of amortization described above. We continue to use the straight-line method of amortization for our contract-based intangibles and amortizable trademarks.

Impairment of long-lived assets We regularly evaluate whether events and circumstances have occurred that indicate the carrying amount of property and equipment and finite-life intangible assets may warrant revision or may not be recoverable. When factors indicate that these long-lived assets should be evaluated for possible impairment, we assess the potential impairment by determining whether the carrying value of such long-lived assets will be recovered through the future undiscounted cash flows expected from use of the asset and its eventual disposition. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows, or external appraisals, as applicable. In addition, we regularly evaluate whether events and circumstances have occurred that indicate the useful lives of property and equipment and finite-life intangible assets may warrant revision. In our opinion, the carrying values of our long-lived assets, including property and equipment and finite-life intangible assets, were not impaired at August 31, 2008 and May 31, 2008.

Income taxes Deferred income taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax laws and rates. Our effective tax rates, reflected as the provision for income taxes divided by income before income tax, including the effect of minority interest, were 32.9% and 35.4% for the three months ended August 31, 2008 and 2007, respectively.

Fair value of financial instruments We consider that the carrying amounts of financial instruments, including cash and cash equivalents, receivables, lines of credit, accounts payable and accrued liabilities, approximate fair value given the short-term nature of these items. Our term loan includes variable interest rates based on the prime rate or London Interbank Offered Rate plus a margin based on our leveraged position; therefore, the carrying amount approximates fair value.

Foreign currencies We have significant operations in subsidiaries in Canada, the Czech Republic, the United Kingdom and the Asia-Pacific region whose functional currency is their local currency. Gains and losses on transactions denominated in currencies other than the functional currencies are included in determining net income for the period. For the three months ended August 31, 2008, we recorded transaction gains of \$0.5 million. For the three months ended August 31, 2007, we recorded transaction losses of \$0.1 million.

The assets and liabilities of subsidiaries whose functional currency is a foreign currency are translated at the period-end rate of exchange. The resulting translation adjustment is recorded as a component of other comprehensive income and is included in shareholders' equity. Translation gains and losses on intercompany balances of a long-term investment nature are also recorded as a component of other comprehensive income. Income statement items are translated at the average rates prevailing during the period.

Earnings per share Basic earnings per share is computed by dividing reported earnings available to common shareholders by the weighted average shares outstanding during the period. Earnings available to common shareholders are the same as reported net income for all periods presented.

Diluted earnings per share is computed by dividing reported earnings available to common shareholders by the weighted average shares outstanding during the period and the impact of securities that, if exercised, would have a dilutive effect on earnings per share. All options with an exercise price less than the average market share price for the period generally are assumed to have a dilutive effect on earnings per share. The diluted share base for the three months ended August 31, 2008 and 2007 excludes incremental shares of 0.2 million and 0.7 million, respectively, related to stock options. These shares were excluded since they have an anti-dilutive effect because their option exercise prices are greater than the average market price of the common shares. No additional securities were outstanding that could potentially dilute basic earnings per share that were not included in the computation of diluted earnings per share.

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The following table sets forth the computation of basic and diluted earnings per share for the three months ended August 31, 2008 and 2007:

	Three Months Ended August 31,	
	2008	2007
	(in thousands, except per share data)	
<u>Basic EPS:</u>		
Net income available to common shareholders	\$ 57,527	\$ 43,575
Basic weighted average shares outstanding	79,462	80,501
Earnings per share	\$ 0.72	\$ 0.54
<u>Diluted EPS:</u>		
Net income available to common shareholders	\$ 57,527	\$ 43,575
Basic weighted average shares outstanding	79,462	80,501
Plus: dilutive effect of stock options and restricted stock awards	1,644	1,406
Diluted weighted average shares outstanding	81,106	81,907
Earnings per share	\$ 0.71	\$ 0.53

New accounting pronouncements In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (Revised) *Business Combinations* (FAS 141R). This statement 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 in the acquiree. In addition, this standard 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. FAS 141R will become effective for us for business combinations in which the acquisition date is on or after June 1, 2009.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). This statement applies to the accounting for noncontrolling interests (currently referred to as minority interest) in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 will become effective for us on June 1, 2009. As further described in Note 12, we have minority interests that include redemption provisions that are not solely within our control, commonly referred to as redeemable minority interests. At the March 12, 2008 meeting of the FASB Emerging Issues Task Force (EITF), certain revisions occurred to EITF Topic No. D-98, *Classification and Measurement of Redeemable Securities* (Topic D-98). These revisions clarified that Topic D-98 applies to redeemable minority interests and requires that its provisions be applied no later than the effective date of FAS 160. While we are still evaluating the impact on our consolidated financial statements of FAS 160, we have determined that, upon adoption of this standard and in conjunction with the provisions of Topic D-98, an adjustment for the then fair value of redeemable minority interests will be required. This adjustment will ultimately increase the carrying value of redeemable minority interests to the redemption value with a corresponding charge to equity. Under Topic D-98, we will have a choice of either accreting redeemable minority interest to its redemption value over the redemption period or recognizing changes in the redemption value immediately as they occur. We are currently evaluating the recognition and measurement provisions of Topic D-98, and we have not yet concluded which measurement method we will apply.

NOTE 2 BUSINESS AND INTANGIBLE ASSET ACQUISITIONS

On June 30 2008, we acquired a 51% majority ownership interest in HSBC Merchant Services LLP. We paid HSBC UK \$439 million for our interest. We manage the day-to-day operations of the partnership, control all major decisions and, accordingly, consolidate the partnership's financial results for accounting purposes effective with the closing date. HSBC UK retained ownership of the remaining 49% and contributed its existing merchant acquiring business in the United Kingdom to the partnership. In addition, HSBC UK entered into a ten-year marketing alliance with the partnership in which HSBC UK will refer customers to the partnership for payment processing services in the United Kingdom. On June 23, 2008, we entered into a new five year, \$200 million term loan to

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fund a portion of the acquisition. We funded the remaining purchase price with excess cash and our existing credit facilities. See Note 4 for a more detailed discussion of the term loan. The partnership agreement includes provisions pursuant to which HSBC UK may compel us to purchase, at fair value, additional membership units from HSBC UK (the UK Put Option). See Note 12 for a more detailed discussion of the UK Put Option.

The purpose of this acquisition was to establish a presence in the United Kingdom. The key factors that contributed to the decision to make this acquisition include historical and prospective financial statement analysis and HSBC UK's market share and retail presence in the United Kingdom. The purchase price was determined by analyzing the historical and prospective financial statements and applying relevant purchase price multiples.

The purchase price totaled \$441.5 million, consisting of \$438.6 million cash consideration plus \$2.9 million of direct out of pocket costs. The acquisition has been recorded using the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The following table summarizes the preliminary purchase price allocation (in thousands):

	Total
Goodwill	\$ 303,015
Customer-related intangible assets	117,064
Contract-based intangible assets	13,462
Trademark	2,209
Property and equipment	18,640
Other current assets	111
Total assets acquired	454,501
Minority interest in equity of subsidiary (at historical cost)	(13,014)
Net assets acquired	\$ 441,487

All of the goodwill associated with the acquisition is expected to be deductible for tax purposes. The customer-related intangible assets have amortization periods of 13 years. The contract-based intangible assets have amortization periods of 7 years. The trademark has an amortization period of 5 years.

The following pro forma information shows the results of our operations for the three months ended August 31, 2008 and 2007 as if the acquisition had occurred on June 1, 2007. The pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of that date. The pro forma information is also not intended to be a projection of future results expected due to the integration of the acquired business.

	Three Months Ended August 31,	
	2008	2007
Pro forma total revenues	\$ 426,702	\$ 371,433
Pro forma net income for the period	\$ 58,791	\$ 46,624
Weighted average number of common shares outstanding, basic	79,462	80,501
Weighted average number of common shares outstanding, diluted	81,106	81,907
Pro forma net income per share, basic	\$ 0.74	\$ 0.58
Pro forma net income per share, diluted	\$ 0.72	\$ 0.57

During fiscal 2008, we acquired a portfolio of merchants that process Discover transactions and the rights to process Discover transactions for our existing and new merchants. The purchase of the portfolio was structured to occur in tranches. During the three months ended August 31, 2008, additional tranches were purchased for \$1.2 million. Goodwill and intangible assets associated with these acquisitions were \$0.7 million and \$0.6 million, respectively. As a result of this acquisition, we now process Discover transactions similarly to how we currently process Visa and MasterCard transactions. The purpose of this acquisition was to offer merchants a single point of contact for Discover, Visa and MasterCard

card processing. The operating results of the acquired portfolio

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have been included in our unaudited consolidated financial statements from the dates of acquisition. The customer-related intangible assets have amortization periods of 10 years. These business acquisitions were not significant to our consolidated financial statements and accordingly, we have not provided pro forma information relating to these acquisitions.

In connection with these Discover related purchases, we have sold the contractual rights to future commissions on Discover transactions to certain of our ISOs. Contractual rights sold totaled \$7.6 million during the year ended May 31, 2008 and \$1.0 million during the quarter ended August 31, 2008. Such sale proceeds are generally collected in installments over periods ranging from three to six months. During the quarter ended August 31, 2008, we collected \$2.9 million of such proceeds, which are included in the Proceeds from sale of investment and contractual rights line item of our unaudited consolidated statement of cash flows. We do not recognize gains on these sales of contractual rights at the time of sale. Proceeds are deferred and recognized as a reduction of the related commission expense. During the quarter ended August 31, 2008, we recognized \$0.2 million of such deferred sales proceeds.

NOTE 3 GOODWILL

The changes to the goodwill balance during the three months ended August 31, 2008 are as follows (in thousands):

Goodwill balance as of May 31, 2008	\$ 497,136
Goodwill acquired	303,676
Effect of foreign currency translation on goodwill carrying value	(38,319)
Goodwill balance as of August 31, 2008	\$ 762,493

NOTE 4 LONG-TERM DEBT AND CREDIT FACILITIES

On June 23, 2008, we entered into a new five year, \$200 million term loan agreement with a syndicate of banks in the United States. The term loan bears interest, at our election, at the prime rate or London Interbank Offered Rate plus a margin based on our leverage position. As of August 31, 2008, the interest rate on the term loan was 3.595%. As of September 30, 2008, the interest rate on the term loan was 5.11%. This increase compared to August 31, 2008 was due to increases in the London Interbank Offered Rate. The term loan calls for quarterly principal payments of \$5 million beginning with the quarter ended August 31, 2008 and increasing to \$10 million beginning with the quarter ending August 31, 2010 and \$15 million beginning with the quarter ending August 31, 2011. As of August 31, 2008, the outstanding balance of the term loan was \$200 million. We made the initial \$5 million principal payment on September 2, 2008 due to a holiday in the United States.

We have a five year, \$350 million unsecured revolving credit facility agreement with a syndicate of banks based in the United States, which we refer to as our U.S. Credit Facility. The credit agreement contains certain financial and non-financial covenants and events of default customary for financings of this nature. We complied with these covenants as of August 31, 2008. The facility expires in November 2011, and borrowings bear a variable interest rate based on a market short-term floating rate plus a margin that varies according to our leverage position.

In addition, the U.S. Credit Facility allows us to expand the facility size to \$700 million by requesting additional commitments from existing or new lenders. We plan to use the U.S. Credit Facility to fund future strategic acquisitions, to provide a source of working capital, and for general corporate purposes. As of August 31, 2008, we had \$5.3 million of borrowings outstanding on our U.S. Credit Facility. As of May 31, 2008, we had no borrowings outstanding on our U.S. Credit Facility.

We have a credit facility, which we refer to as our Canadian Credit Facility, with the Canadian Imperial Bank of Commerce, or CIBC, as administrative agent and lender. The Canadian Credit Facility is a facility which consists of a line of credit of \$25 million Canadian dollars, or \$24 million United States dollars based on the August 31, 2008 exchange rate. In addition, the Canadian Credit Facility allows us to expand the size of the uncommitted facility to \$50 million Canadian dollars during the peak holiday season and does not have a fixed term. The Canadian Credit Facility carries no termination date, but can be terminated by CIBC with advance notice. The Canadian Credit Facility has a variable interest rate based on the Canadian dollar London Interbank Offered Rate plus a margin.

The Canadian Credit Facility allows us to provide certain Canadian merchants with same day value for their Visa credit card deposits. Same day value is the practice of giving merchants value for credit card transactions on the date of the applicable sale even

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though we receive the corresponding settlement funds from Visa Canada/International at a later date. The amounts borrowed under the Canadian Credit Facility are restricted in use to pay Canadian Visa merchants and such amounts are generally received from Visa Canada/International on the following day.

Our obligations under the Canadian Credit Facility are secured by a first priority security interest in the members' accounts receivable from Visa Canada/International and Interac Associates for our transactions processed through the CIBC Visa BIN and Interac debit network, the bank accounts in which the settlement funds are deposited, and by guarantees from certain of our subsidiaries. These guarantees are subordinate to any guarantees granted by such subsidiaries under our U.S. Credit Facility. The Canadian Credit Facility also contains certain financial and non-financial covenants and events of default customary for financings of this nature. We complied with these covenants as of August 31, 2008. As of both August 31, 2008 and May 31, 2008, we had no borrowings outstanding on our Canadian Credit Facility.

In April 2008, we entered into a new unsecured revolving credit agreement with the National Bank of Canada, which we refer to as our NBC Credit Facility. The terms of this facility will be subject to annual review on March 31 of each year. The NBC Credit Facility is a facility which consists of a line of credit of \$40 million Canadian, or \$38 million United States dollars based on the August 31, 2008 exchange rate, and a line of credit of \$5 million United States dollars. We are able to expand the size of the facility to \$80 million Canadian on certain Canadian holidays. The NBC Credit Facility is subject to revision and renewal each March 31 and has a variable interest rate based on the National Bank of Canada prime rate. The NBC Credit Facility contains certain financial and non-financial covenants and events of default customary for financings of this nature. We complied with these covenants as of August 31, 2008.

We will use the NBC Credit Facility to provide certain Canadian merchants with same day value for their United States and Canadian dollar MasterCard credit card transactions and debit card transactions. As of August 31, 2008, we had \$3.2 million of borrowings outstanding on our NBC Credit Facility, based on the exchange rate in effect on that date. As of May 31, 2008, we had \$0.1 million of borrowings outstanding, based on the exchange rate in effect on that date.

During the fiscal year 2008, our Chinese subsidiary in the Asia-Pacific region entered into a revolving credit facility to provide a source of working capital. This credit facility is denominated in Chinese Renminbi and has a variable interest rate based on the lending rate stipulated by the People's Bank of China. This facility is subject to annual review up to and including June 30, 2009. As of August 31, 2008, this facility totaled \$2.6 million, of which we had \$1.0 million of borrowings outstanding, based on the exchange rate in effect on that date. As of May 31, 2008, we had \$0.6 million of borrowings outstanding, based on the exchange rate in effect on that date.

During the fiscal year 2008, our subsidiary in Macau in the Asia-Pacific region entered into a revolving overdraft facility which allows us to fund merchants prior to receipt of corresponding settlement funds from Visa and MasterCard. This is denominated in Macau Pataca and has a variable interest rate based on the lending rate stipulated by The Hongkong and Shanghai Banking Corporation Limited, plus a margin. This facility is subject to review at any time and in any event by January 1, 2009, and subject to overriding right of withdrawal and repayment on demand. As of August 31, 2008, this facility totaled \$3.8 million, of which we had \$1.1 million of borrowings outstanding, based on the exchange rate in effect on that date. As of May 31, 2008, we had \$0.9 million of borrowings outstanding, based on the exchange rate in effect on that date.

NOTE 5 INCOME TAX

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* and *Interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and establishes guidelines for recognition and measurement of a tax position taken or expected to be taken in a tax return. We adopted the provisions of FIN 48 on June 1, 2007. As a result of this adoption, we recorded a \$1.5 million increase in the liability for unrecognized income tax benefits, which was accounted for as a \$1.0 million reduction to the June 1, 2007 balance of retained earnings and a \$0.5 million reduction to the June 1, 2007 balance of additional paid-in capital. As of the adoption date, other long-term liabilities included liabilities for unrecognized income tax benefits of \$3.8 million and accrued interest and penalties of \$0.7 million.

We recognize accrued interest related to unrecognized income tax benefits in interest expense and accrued penalty expense related to unrecognized tax benefits in sales, general and administrative expenses. During the three months ended August 31, 2008, the amount of accrued interest and penalty expense related to the unrecognized income tax benefits was insignificant.

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We anticipate the total amount of unrecognized income tax benefits will decrease by \$1.1 million net of interest and penalties from our foreign operations within the next nine months as a result of the expiration of the statute of limitations.

We conduct business globally and file income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States and Canada. With few exceptions, we are no longer subject to income tax examinations for years ended May 31, 2003 and prior. We are currently under audit by the Internal Revenue Service of the United States for the years ended May 31, 2004 to 2005. We expect that the examination phase of this audit will conclude during fiscal 2009.

NOTE 6 SHAREHOLDERS EQUITY

On April 5, 2007, our Board of Directors approved a share repurchase program that authorized the purchase of up to \$100 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, we repurchased 2.3 million shares of our common stock during fiscal 2008 at a cost of \$87.0 million, or an average of \$37.85 per share, including commissions. We did not repurchase shares of our common stock during the first quarter of fiscal 2009. As of August 31, 2008, we had \$13.0 million remaining under our current share repurchase authorization.

NOTE 7 SHARE-BASED AWARDS AND OPTIONS

As of August 31, 2008, we have four share-based employee compensation plans. For all share-based awards granted after June 1, 2006, compensation expense is recognized on a straight-line basis. The fair value of share-based awards granted prior to June 1, 2006 is amortized as compensation expense on an accelerated basis from the date of the grant. There was no share-based compensation capitalized during the three months ended August 31, 2008 and 2007.

We have certain stock plans under which incentive stock options, non-qualified stock options and restricted stock have been granted to officers, key employees and directors under the Global Payments Inc. 2000 Long-Term Incentive Plan, as amended and restated (the 2000 Plan), the Global Payments Inc. Amended and Restated 2005 Incentive Plan (the 2005 Plan), and an Amended and Restated 2000 Non-Employee Director Stock Option Plan (the Director Plan) (collectively, the Plans). Effective with the adoption of the 2005 Plan, there are no future grants under the 2000 Plan. Shares available for future grant as of August 31, 2008 are 4.5 million for the 2005 Plan and 0.5 million for the Director Plan.

The total share-based compensation cost that has been charged against income for these plans aggregated \$3.3 million and \$3.1 million for the three months ended August 31, 2008 and 2007, respectively, for (i) the continued vesting of all stock options that remained unvested as of June 1, 2006, (ii) all stock options granted, modified, or cancelled after our adoption of FAS 123R, (iii) our employee stock purchase plan, and (iv) our restricted stock plan. The total income tax benefit recognized for share-based compensation in the accompanying unaudited statements of income was \$1.1 million for both the three months ended August 31, 2008 and 2007.

Stock Options

Stock options are granted at 100% of fair market value on the date of grant and have 10-year terms. Stock options granted vest one year after the date of grant with respect to 25% of the shares granted, an additional 25% after two years, an additional 25% after three years, and the remaining 25% after four years. Stock options granted prior to August 2003 vest two years after the date of grant with respect to 20% of the shares granted, an additional 25% after three years, an additional 25% after four years, and the remaining 30% after five years. The Plans provide for accelerated vesting under certain conditions. We have historically issued new shares to satisfy the exercise of options.

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The following table summarizes all outstanding options as of August 31, 2008 and the changes during the three months ended August 31, 2008.

	Three Months Ended August 31, 2008		
	Options (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
<u>2000 Plan</u>			
Outstanding at May 31	2,228	\$ 18	
Granted			
Cancelled	(3)	22	
Exercised	(85)	20	
Outstanding at August 31	2,140	\$ 18	\$ 65.1
<u>2005 Plan</u>			
Outstanding at May 31	2,013	\$ 37	
Granted	184	44	
Cancelled	(32)	38	
Exercised	(68)	32	
Outstanding at August 31	2,097	\$ 37	\$ 22.5
<u>Director Plan</u>			
Outstanding at May 31	295	\$ 25	
Granted			
Cancelled			
Exercised			
Outstanding at August 31	295	\$ 25	\$ 6.8

Total stock options outstanding as of August 31, 2008 have a weighted average exercise price of \$27, a weighted average remaining contractual life of 6 years and an aggregate intrinsic value of \$94.4 million. As of August 31, 2008, stock options exercisable total 3.5 million and have a weighted average exercise price of \$24, a weighted average remaining contractual life of 5 years and an aggregate intrinsic value of \$84.9 million. The aggregate intrinsic value of stock options exercised during the three months ended August 31, 2008 and 2007 was \$3.3 million and \$6.6 million, respectively. As of August 31, 2008, we had \$9.1 million of total unrecognized compensation cost related to unvested options, which we expect to recognize over a weighted average period of 1.3 years.

The weighted average grant-date fair values of each option granted during both the three months ended August 31, 2008 and 2007 was \$13. The fair value of each option granted during the three months ended August 31, 2008 and 2007 was estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions used for the grants during the respective period:

	Three Months Ended August 31,	
	2008	2007
<u>2005 Plan</u>		
Risk-free interest rates	3.24%	4.53%
Expected volatility	28.17%	31.70%
Dividend yields	0.19%	0.19%
Expected lives	5 years	5 years

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The risk-free interest rate is based on the yield of a zero coupon U.S. Treasury security with a maturity equal to the expected life of the option from the date of the grant. Our assumption on expected volatility is based on our historical volatility. The dividend yield assumption is calculated using our average stock price over the preceding year and the annualized amount of our current quarterly dividend. We based our assumptions on the expected lives of the options on our analysis of the historical exercise patterns of the options and our assumption on the future exercise pattern of options.

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Shares awarded under the restricted stock program, issued under the 2000 Plan and 2005 Plan, are held in escrow and released to the grantee upon the grantee's satisfaction of conditions of the grantee's restricted stock agreement. The grant date fair value of restricted stock awards is based on the quoted fair market value of our common stock at the award date. Compensation expense is recognized ratably during the escrow period of the award.

Grants of restricted shares are subject to forfeiture if a grantee, among other conditions, leaves our employment prior to expiration of the restricted period. Beginning June 1, 2006, new grants of restricted shares generally vest one year after the date of grant with respect to 25% of the shares granted, an additional 25% after two years, an additional 25% after three years, and the remaining 25% after four years. For restricted shares granted prior to June 1, 2006, the restrictions generally lapse two years after the date of grant with respect to 33% of the shares granted, an additional 33% after three years, and the remaining 33% after four years.

The following table summarizes the changes in non-vested restricted stock awards for the three months ended August 31, 2008:

	Share Awards (in thousands)	Weighted Average Grant-Date Fair Value
Non-vested at May 31	518	\$ 39
Granted	402	44
Vested	(149)	39
Forfeited	(9)	39
Non-vested at August 31	762	\$ 42

The total fair value of shares vested during the three months ended August 31, 2008 was \$5.9 million. During the three months ended August 31, 2007, the weighted average grant-date fair value of shares vested was \$29 and the total fair value of shares vested during these three months was \$3.4 million.

We recognized compensation expenses for restricted stock of \$1.7 million and \$0.9 million in the three months ended August 31, 2008 and 2007, respectively. As of August 31, 2008, there was \$30.4 million of total unrecognized compensation cost related to unvested restricted stock awards that is expected to be recognized over a weighted average period of 3.3 years.

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan under which the sale of 2.4 million shares of our common stock has been authorized. Employees may designate up to the lesser of \$25 thousand or 20% of their annual compensation for the purchase of stock. The price for shares purchased under the plan is 85% of the market value on the last day of the quarterly purchase period. As of August 31, 2008, 0.7 million shares had been issued under this plan, with 1.7 million shares reserved for future issuance.

The weighted average grant-date fair value of each designated share purchased under this plan during the three months ended August 31, 2008 and 2007 was \$7 and \$5, respectively.

Table of Contents**NOTE 8 COMPREHENSIVE INCOME**

The components of comprehensive income are as follows:

	Three Months Ended August 31,	
	2008	2007
	(in thousands)	
Net income	\$ 57,527	\$ 43,575
Foreign currency translation, net of tax of \$(4,886) and \$(301), respectively	(63,265)	5,568
Total comprehensive income	\$ (5,738)	\$ 49,143

NOTE 9 RESTRUCTURING

During the fourth quarter of fiscal 2007, consistent with our strategy to leverage infrastructure and consolidate operations, we committed to plans to close two locations and consolidate their functions as well as other functions into existing locations. We completed these plans as of November 30, 2007 and do not expect to incur additional restructuring charges in fiscal 2009 related to these restructuring plans.

The following schedule details the rollforward of the restructuring liability from May 31, 2007 to August 31, 2008:

	Liability Balance as of May 31, 2007	Costs Accrued During Fiscal 2008	Costs Paid During Fiscal 2008	Liability Balance as of May 31, 2008 (in thousands)	Costs Accrued During First Quarter 2009	Costs Paid During First Quarter 2009	Liability Balance as of August 31, 2008
One-time employee termination benefits	\$ 1,746	\$ 1,317	\$ 2,889	\$ 174	\$	\$ 55	\$ 119

NOTE 10 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow disclosures for the three months ended August 31, 2008 and 2007 are as follows:

	Three Months Ended August 31,	
	2008	2007
	(in thousands)	
Income taxes paid, net of refunds	\$ 7,577	\$ 18,605
Interest paid	2,941	1,723

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NOTE 11 SEGMENT INFORMATION

General information

During the three months ended August 31, 2008, we began assessing our operating performance using a new segment structure. We made this change as a result of our June 30, 2008 acquisition of 51% of HSBC Merchant Services LLP in the United Kingdom, in addition to anticipated future international expansion. Beginning with the quarter ended August 31, 2008, the reportable segments are defined as North America Merchant Services, International Merchant Services, and Money Transfer. The following tables reflect these changes, and the reportable segments for the three months ended August 31, 2007 have been restated to be consistent with this presentation.

The merchant services segments primarily offer processing solutions for credit cards, debit cards, and check-related services. We have 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 services directly to merchants. Our other model, referred to as *indirect*, provides the same basic products and services as direct merchant services, primarily to financial institutions and a limited number of ISOs on an unbundled basis that in turn resell our products and services to merchants. The money transfer segment offers money transfer services to consumers, primarily from the United States and Europe to Latin America, Morocco, the Philippines, Romania, Poland and other destinations.

Information about profit and assets

We evaluate performance and allocate resources based on the operating income of each segment. The operating income of each segment includes the revenues of the segment less those expenses that are directly related to those revenues. Operating overhead, shared costs, and certain compensation costs are included in Corporate below. Interest expense or income and income tax expense are not allocated to the individual segments. Additionally, restructuring charges are not allocated to the individual segments and are separately presented below. Lastly, we do not evaluate performance or allocate resources using segment asset data. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 1.

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Information on segments, including revenues by geographic distribution within segments, and reconciliations to consolidated revenues and consolidated operating income are as follows for the three months ended August 31, 2008 and 2007:

	Three Months Ended August 31,	
	2008	2007
	(in thousands)	
<u>Revenues:</u>		
United States	\$ 200,696	\$ 179,450
Canada	85,944	66,677
North America merchant services	286,640	246,127
Europe	61,602	13,775
Asia-Pacific	20,718	16,064
International merchant services	82,320	29,839
United States	29,380	29,581
Europe	7,417	5,433
Money transfer	36,797	35,014
Consolidated revenues	\$ 405,757	&nb