GLOBAL PAYMENTS INC
Form 10-K
July 30, 2007
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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, 2007

OR

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

SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission 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 **(Address of principal executive offices)**	**30328-3473** **(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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the voting stock held by non-affiliates (assuming for these purposes, but not conceding, that all executive officers, directors, and shareholders owning 15% or more of the outstanding shares of common stock as of November 30, 2006, are affiliates of the Registrant) was $3,644,110,434 based upon the last reported sale price on the New York Stock Exchange on November 30, 2006.

The number of shares of the registrant s common stock outstanding at July 18, 2007 was 80,942,899 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Specifically identified portions of the registrant s proxy statement for the 2007 annual meeting of shareholders are incorporated by reference in Part III.

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GLOBAL PAYMENTS INC.

2007 FORM 10-K ANNUAL REPORT

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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; the amount of future results of operations, such as revenue, certain expenses, operating margins, income tax rates, shares outstanding, capital expenditures, operating metrics, and earnings per share; our success and our 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.

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PART I

ITEM 1 BUSINESS

General Developments

Financial Highlights

In the year ended May 31, 2007, or fiscal 2007, revenue increased 17% to $1,061.5 million from $908.1 million in the year ended May 31, 2006, or fiscal 2006. This revenue growth was primarily due to our domestic direct and new Asia-Pacific merchant services channels. Consolidated operating income was $218.1 million for fiscal 2007, compared to $201.1 million for fiscal 2006, which resulted in a decrease in operating margin to 20.5% for fiscal 2007 from 22.1% for fiscal 2006. Net income increased $17.5 million, or 14%, to $143.0 million in fiscal 2007 from $125.5 million in the prior year, resulting in a $0.22 increase in diluted earnings per share to $1.75 in fiscal 2007 from $1.53 in fiscal 2006.

Merchant services segment revenue increased $140.6 million or 18% to $929.1 million in fiscal 2007 from $788.5 million in fiscal 2006, and money transfer segment revenue increased $12.8 million or 11% to $132.4 million in fiscal 2007 from $119.6 million in fiscal 2006. Merchant services segment operating income increased 16% to $259.7 million in fiscal 2007 from $224.2 million in fiscal 2006, with operating margins of 27.9% and 28.4% for fiscal 2007 and 2006, respectively. Money transfer segment operating income decreased 23% to $14.5 million in fiscal 2007 from $18.7 million in fiscal 2006, with operating margins of 10.9% and 15.7% for fiscal years 2007 and 2006, respectively.

The consolidated operating income amounts reflect restructuring and other charges of $3.1 million and $1.9 million in fiscal 2007 and fiscal 2006, respectively. Restructuring and other charges represented 0.3% and 0.2% of revenue in fiscal 2007 and 2006, respectively. These charges primarily relate to employee termination benefits, fixed asset abandonment and facility closure costs due to facility consolidations and the elimination of redundant activities.

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

Facility Consolidations and Restructuring

In March 2007, we decided to consolidate our technical support center located in St. Louis, Missouri into our operations center in Owings Mills, Maryland. We believe this consolidation will improve our customer service by allowing us to provide our customers with a single point of contact in one physical location. This consolidation will result in staff reduction, fixed asset abandonment and facility closure costs and is expected to be completed during our second quarter of fiscal 2008.

In March 2007, we also decided to consolidate an operations facility in Denver, Colorado into our Niles, Illinois operations facility, which we believe will improve the efficiency of our check service offering. This consolidation, which resulted in staff reduction and facility closure costs, was completed during the fourth quarter of fiscal 2007.

Share Repurchase Program

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. This authorization has no expiration date and may be suspended or terminated at any time. Repurchased shares will be retired but will be available for future issuance. No amounts were repurchased during fiscal 2007.

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Asia-Pacific Acquisition

On July 24, 2006, we completed the purchase of a fifty-six percent ownership interest in the merchant acquiring business of The Hongkong and Shanghai Banking Corporation Limited, or HSBC. This business provides card payment processing services to merchants in the Asia-Pacific region. The business includes HSBC s payment processing operations in the following ten countries and territories: Brunei, China, Hong Kong, India, Macau, Malaysia, Maldives, Singapore, Sri Lanka and Taiwan. Under the terms of the agreement, we initially paid HSBC $67.2 million in cash to acquire our ownership interest. We paid an additional $1.4 million under this agreement during fiscal 2007, for a total purchase price of $68.6 million to acquire our ownership interest. In conjunction with this acquisition, we entered into a transition services agreement with HSBC that may be terminated at any time. Under this agreement, we expect HSBC will continue to perform payment processing operations and related support services until we integrate these functions into our own operations, which we expect will be completed in 2010. The operating results of this acquisition are included in our consolidated statements of income from the date of the acquisition.

Business Description

We are a leading payment processing and consumer money transfer company. As a high-volume processor of electronic transactions, we enable 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 payment transaction or money transfer can be completed. 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 provided transaction processing services since 1967.

We market our products and services throughout the United States, Canada, Europe and the Asia-Pacific region. We operate in two business segments, merchant services and money transfer, and we offer various products through these segments. Our merchant services segment targets customers in many vertical industries including financial institutions, gaming, government, health care, professional services, restaurants, retail, universities and utilities. Our money transfer segment primarily targets immigrants in the United States and Europe. See Note 10 in the notes to consolidated financial statements for additional segment information and Item 1A Risk Factors for a discussion of risks involved with our international operations.

Total revenues from our merchant services and money transfer segments, by geography and sales channel, are as follows (amounts in thousands):

	2007	2006	2005
Domestic direct	$ 558,026	$ 481,273	$ 410,047
Canada	224,570	208,126	175,190
Asia-Pacific	48,449		
Central and Eastern Europe	51,224	47,114	40,598
Domestic indirect and other	46,873	51,987	62,033
Merchant services	929,142	788,500	687,868
Domestic	115,416	109,067	91,448
Europe	16,965	10,489	5,015
Money transfer	132,381	119,556	96,463

Total revenues	$ 1,061,523	$ 908,056	$ 784,331

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Merchant Services Segment

Our offerings in the merchant services segment provide merchants, independent sales organizations, or ISOs, and financial institutions with credit and debit card transaction processing, as well as check-related services. 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, 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. We also offer sales, installation and servicing of ATM and point of sale, or POS, terminals and selected card issuing services, which are components of indirect merchant services, through Global Payments Europe, s.r.o., formerly known as MUZO, which is our subsidiary based in the Czech Republic. Our direct merchant services are marketed in the United States, Canada, and throughout the Asia-Pacific region, while our indirect merchant services are marketed in the United States, Canada, and Europe.

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.

Direct Merchant Services

We market our services through a variety of sales channels that includes a dedicated sales force, ISOs, an internal telesales group, trade associations, alliance and agent bank relationships, retail outlets and financial institutions. In addition to receiving referrals from approximately 1,500 bank branch locations in Canada, we have affiliations in the United States with hundreds of organizations that provide sales leads, including financial institutions, alliance bank branch locations, trade associations, and value added resellers, or VARs. Additionally, we market directly to customers through print advertising and direct mail efforts. We also participate in major industry tradeshows and publicity events and actively execute various public relations campaigns. In the Asia-Pacific region, we market through a dedicated sales force and receive referrals from HSBC bank branch locations. We pursue this strategy because we believe that it utilizes one of the lowest cost delivery systems available to acquire target customers successfully.

Credit and Debit Card Transaction Processing

Credit and debit card transaction processing includes the processing of Visa and MasterCard credit cards, cards issued by other card associations like American Express, Diners Club, Discover and JCB, and on-line and off-line debit cards. 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. The term merchant generally refers to any organization that accepts credit or debit cards for the payment of goods and services, such as retail stores, including physical locations and internet sites, mail order or telephone order outlets, restaurants, universities and government agencies. We are the processing intermediary between the merchant and the card associations, debit networks and financial institutions.

Although card transactions may appear to be simple, a transaction requires a complex process involving various participants in a series of electronic connections. In addition to electronic transaction payment processors such as Global Payments, also known as merchant acquirers, participants in this process include card issuers, cardholders, merchants, card associations and card association members. Card issuers are financial institutions that issue credit and debit cards to approved applicants and are identifiable by their trade name typically imprinted on the issued cards.

An approved applicant for a credit or debit card from a card issuer is referred to as a cardholder, and may be any entity for which an issuer wishes to extend a line of credit, such as a consumer, corporation or government agency. The cardholder may use the card at any merchant location that meets the qualification standards of the relevant card association, such as MasterCard, Visa, other cards such as American Express, Diners Club and Discover, or debit networks such as NYCE, PULSE and STAR in the United States, Interac in Canada and the various debit networks in the Asia-Pacific region.

The card associations and debit networks consist of members, generally financial institutions, who 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. A merchant acquirer can be an independent processor that acts with a member sponsor, such as Global Payments, or the merchant acquirer can be a bank itself. We perform 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. The following is a more detailed description of credit and debit card transactions:

A card transaction begins when a cardholder presents a card for payment at a merchant location and the merchant swipes the card s magnetic strip through a POS terminal card reader, which may be provided by Global Payments. 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 VAR. 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 limits. The terminal electronically records sales draft information, such as the credit card identification number, transaction date and value of the goods or services purchased. 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 or on-line debit transactions are sent through a debit network, while signature-based, off-line debit, or check card transactions are sent through card associations and require a signature at the time of purchase. Also, PIN-based or on-line 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, off-line 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.

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, such as through the internet or a leased line, in order to receive authorization of the transaction. We route the request to the applicable card association or debit network. The card association 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 from the time the merchant swipes the cardholder s card through the POS terminal card reader.

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 associations use a system known as interchange, in the case of credit and off-line debit cards, and financial institutions use the debit networks, in the case of on-line debit cards, to transfer the information and funds between the card issuers and us to complete the link between merchants and card issuers.

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

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institution sponsors in the United States, Canada, 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. The member financial institutions of Visa and MasterCard, some of which are our competitors, set the standards with which we must comply.

Funds settlement refers to the process of transferring funds for sales and credits between cardholders 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.

In the United States and Canada, we use our network telecommunication infrastructure to deliver funding files to the Member, which creates a file to fund the merchants over 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 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 services until we integrate the Asia-Pacific operations into our own operations, which we expect will be completed in various phases through 2010. 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 Member s funding obligation to the merchant precedes the incoming amount from the card associations, the amount of that net receivable position is advanced to the Member. Conversely, 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. Management believes that this practice is also commonly followed by other independent processors as the Members normally attempt to have a zero balance in their owned bank accounts at the end of each day. Each participant in the transaction process receives compensation for its services.

As an illustration, on a $100.00 credit card transaction, the card association may fund the Member $98.50 after retaining a hypothetical $1.50 referred to as an interchange fee or interchange expense. The card associations have published more than 250 different interchange expense rate arrangements. The card issuer seeks reimbursement of $100.00 from the cardholder in the cardholder s monthly credit card statement. The Member would, in turn, pay the merchant $100.00. The net settlement after this transaction would require us to advance to 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% of the credit card transaction value, 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 advanced to the Member 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 and commissions paid to our sales force or ISOs.

If it is determined that the merchant in the above transaction is to be placed on reserve or delay, then collateral is held to minimize contingent liabilities to us associated with charges properly reversed by

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cardholders, otherwise known as chargebacks. This contingent liability arises from our performance guarantee to the Member sponsor. The merchant funds are held as a cash deposit to minimize this risk of loss associated with the transactions processed. On behalf of the Member, we hold all or a portion of the deposit for the convenience of the Member. In this situation, the Member would net fund us $98.50, the same amount the Member received from the card association. This amount is comprised of the $100.00 that would have been funded by the Member to the merchant, less the same $1.50 for the interchange expense.

If a transaction we had processed previously through the Member is charged back by the cardholder through the card issuer, the Member is notified of the shortfall in the anticipated wire transfer. If the amount of the chargeback is $5.00, the Member would receive $93.50, net from the card association and be required to fund the merchant the same $100.00. Therefore, we would be required to advance $6.50 to the Member. This amount is comprised of $5.00 for the chargeback, plus the same $1.50 for the interchange expense.

In addition to the card processing services described above, we also process retrieval requests on behalf of merchants for issuing banks and provide chargeback resolution services, both of which relate to cardholders disputing an amount that has been charged to their card. We review the dispute and handle the related exchange of information and funds between the merchant and the card issuer if a charge is to be reversed. As a result of our financial institution sponsorship and the terms of our standard merchants agreement, our direct merchant services customers are liable for any charges properly reversed by the 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 reason, we may be liable for any such reversed charges. We utilize a number of systems and procedures to manage merchant risk. Our risk management services include credit underwriting, credit scoring, fraud control, account processing and collections. In addition, we may require cash deposits, guarantees, letters of credit and other types of collateral by certain merchants to minimize any such contingent liability. Notwithstanding our risk management activities, we have historically experienced losses due to merchant defaults.

Check 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 domestic direct service offering.

Check guarantee services include comprehensive check verification and guarantee services designed for a merchant s specific needs and risk adversity. This service offering guarantees payment of all checks that are electronically verified, primarily using POS check readers and our extensive databases, which allows merchants to expand their revenue base by applying less stringent requirements when accepting checks from consumers. If a verified check is dishonored, our check guarantee 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. To protect against this risk, we use verification databases that contain information on historical delinquent check writing activity. 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. Check verification services provide a low-cost loss-reduction solution for merchants wishing to measure a customer s check worthiness quickly at the point of sale without incurring the additional expense of check guarantee services. We provide check recovery services for these customers upon their request. 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.

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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 the casinos customers. VIP Preferred offers both traditional and electronic check cashing options which eliminates the need for paper checks as part of the VIP LightSpeed suite of products. Further, our ATM Cash Advantage product allows the casinos customers to cash electronic checks at certain ATMs using a VIP Preferred Card to initiate the transaction. Lastly, our PlayerCash Advantage product, formerly referred to as Cash and Win, allows the casinos customers to complete credit and debit card cash advances by utilizing specialized kiosks to initiate the advances and then completing the transaction at the casino cage. 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.

Indirect Merchant Services

Through our indirect merchant services business model, we market unbundled products and services primarily to financial institutions and a limited number of ISOs that in turn resell our products and services to merchants. The primary service offering in this business model is credit and debit card transaction processing. These products and services are identical with those offered under our direct merchant services business model. We primarily perform authorization, electronic draft capture and file transfer services for our indirect merchant services customers. In addition, we may perform merchant accounting and other back office services. The primary differences between indirect merchant services credit and debit card transaction processing and direct merchant services relate to funds settlement and financial institution sponsorship. Our indirect merchant services customers perform their own funds settlement and either have separate financial institution sponsorship or their own identification numbers, referred to as Bank Identification Number, or BIN, for Visa transactions and Interbank Card Association number, or ICA, for MasterCard transactions, to clear credit card transactions through Visa and MasterCard. Since we are not party to the financial institution sponsorship, we are not potentially liable for any charges properly reversed by the cardholder.

Our merchant accounting services provide information primarily for our indirect merchant services customers to monitor portfolio performance, control expenses, disseminate information and track profitability through the production and distribution of detailed statements summarizing electronic transaction payment processing activity. Our risk management services allow financial institutions to monitor credit and transaction risk, thereby enhancing the profitability of their merchant portfolios. Our risk management services include credit underwriting, credit scoring, fraud control, account processing and collections.

In Europe, we provide these indirect merchant services through our Global Payments Europe subsidiary. Consistent with the European payments processing environment, Global Payments Europe s offerings also include terminal management services for ATM and POS terminals, as well as card issuing services. Our card issuing services in Europe include card database management and card personalization. We also provide credit scoring services to financial institutions in the Czech Republic, Slovakia and Russia.

Our domestic indirect and other service offering also provides financial and operational data to financial institutions, corporations and government agencies and allows these organizations to exchange this information with financial institutions and other service providers. We also provide EDI tax filing and internet tax payment services that allow financial institutions and government agencies to offer corporate taxpayers a secure and convenient method of paying taxes electronically. These services are primarily priced based on a rate per transaction processed.

Money Transfer Segment

Our money transfer segment provides consumer money transfer services. A majority of the revenue derived from our money transfer offering consists of our electronic money transfer services marketed under our DolEx

brand to the growing population of first and second generation Latin Americans living in the United States. This consumer segment regularly transfers money to family and friends living in Latin America. Following the Europhil acquisition in December 2004, we expanded our money transfer origination locations to Europe and our settlement locations to Morocco, the Philippines, Romania, Poland and other new destinations in Latin America.

As of May 31, 2007, we operated 875 originating retail branch locations in the United States and 68 in Europe, and have settlement arrangements with more than 12,000 bank, exchange house, and retail locations worldwide. DolEx was founded in 1996, primarily by its current management team. The money transfer service offering is primarily driven by transaction levels and unit pricing. Our business strategy is to competitively price our services, provide a timely and quality service, diversify our services through our customer loyalty program and increase our physical presence through additional originating branch locations and expansion into other settlement countries. We believe this strategy will further expand our customer base and increase our market share.

In a typical money transfer transaction, a customer visits one of our originating branch locations and pays a fee based on the nature and amount of the transaction performed on the customer s behalf. Where applicable, the customer is quoted a retail exchange rate when the money transfer transaction is requested. The customer will receive a receipt that includes the amount the beneficiary will receive, the retail exchange rate, money transfer fee, settlement location and total amount that was remitted to us. Our call center provides an additional service for recipients in Mexico by contacting the beneficiary to provide an identification number, the settlement location and the transfer amount to enable the recipient to claim the transferred funds once the transaction is completed at the originating branch location. We earn additional revenue based on the difference between the retail exchange rate that is quoted and the wholesale exchange rate when the currency is purchased, which is in much larger denominations than the individual customer s transaction. On each business day, we estimate the amount of currency needed by our settlement locations, bid the wholesale exchange rates based on the amount needed and purchase currency at the best available rates.

Employees

As of May 31, 2007, we had 4,680 employees. Many of our employees are highly skilled in technical areas specific to electronic transaction payment processing and money transfer. We believe that our current and future operations depend substantially on retaining our key technical employees.

Competition

Merchant Services Segment

Our primary competitors in the electronic transaction payment processing industry include other merchant acquirers, as well as major national and regional financial institution processors and ISOs, some of which are our customers. Certain of these companies are privately held, and the majority of those that are publicly held do not release the information necessary to quantify our relative competitive position precisely. As an independent merchant acquirer, our principal affiliation with financial institutions relates to the sponsorship that enables our access to the card associations and debit networks. We believe an independent merchant acquirer, such as Global Payments, will tend to be more of an advocate for the merchant customer, as there is no other relationship with a card issuing business or cardholder customer service, which is typical of a financial institution processor. Also, a financial institution processor s sales channel is primarily based on customer referrals within the institution while an independent processor or ISO will tend to be focused on sales from all channels, including internally generated leads. Finally, a financial institution processor may not have the same executive focus on a merchant acquiring business, as the business is generally not core to the total revenues of the financial institution. We primarily differ from ISOs in that we have our own processing platform and financial institution sponsorship agreements.

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Based on industry publications such as *The Nilson Report*, dated March 2007, we are a leading mid-market and small-market merchant acquirer in the United States. According to that report, one of our competitors, First Data Corporation and its affiliates, is the largest electronic transaction payment processor in the United States.

Our primary competitor in Canada is Moneris Solutions, which we believe has a larger share of the Canadian merchant acquiring market based on volume processed. Moneris Solutions is a joint venture between the Royal Bank of Canada and the Bank of Montreal.

In the Asia-Pacific region, our primary competition is from financial institutions that offer merchant acquiring services. In Europe, our primary competition is from financial institutions, other third party processors and from software providers that offer financial institutions the ability to process transactions in-house.

We service all industry segments and specialize in the direct merchant services, mid-market and small-market segments in the United States, large and mid-market segments in Canada and large and mid-market segments in the Asia-Pacific region. We define mid-market as a merchant with an average of $150,000 to $300,000 in annual Visa and/or MasterCard volume. Many of our ISO relationships provide merchant referrals in the small-market segment, with average annual Visa and/or MasterCard volumes below $150,000. National accounts or large-market merchants that we serve typically range between $3 million to $10 million in annual Visa and/or MasterCard volume, although we serve a limited number of merchants with more than $100 million in such volume and a select few merchants with more than $1 billion in such volume.

Our primary strategy to distinguish ourselves from our competitors focuses on offering a variety of electronic transaction payment processing solutions to our customers. These enhanced services involve vertical market functionality and sophisticated reporting features that add value to the information obtained from our electronic transaction payment processing databases. We believe that our knowledge of these specific markets, the size and effectiveness of our dedicated sales force, affiliations with trade associations, agent banks and VARs, our ability to offer specific, integrated solutions to our customers, including hardware, software, processing, and network facilities, and our flexibility in packaging these products are positive factors that enhance our competitive position.

Money Transfer Segment

Our primary competitors in the money transfer industry are Western Union and MoneyGram, who are more diversified with a broader international reach than us. In addition, we face competition from a number of smaller money transfer operators who focus on money transfers from the United States to Latin America. Many of our competitors use agency agreements with third parties at the point of sale to collect funds and input transaction data. We generally use a fixed-cost, branch-owned model at the point of sale rather than a variable-cost, agent-based model. We believe this model enhances our growth strategy, as higher transaction levels may provide significant future leverage.

The most significant competitive factors relating to our money transfer offering include price, reliability, customer service, functionality, the breadth and effectiveness of our distribution channel and value-added features. These competitive factors will continue to change as new distribution channels and alternative payment solutions are developed by our competitors and us. Many money transfer operators, including us, are developing ancillary products and services such as stored value cards, check cashing and bill payments. Increasingly, card-based solutions are being introduced at the origination and settlement points, replacing the current cash-based solution. Our ability to effectively compete in the marketplace depends on our ability to adapt to these technological and competitive advancements. We believe our knowledge of the industry, our relative size and our branch-owned model give us an advantage over our competitors when adapting to these changes.

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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, government agencies 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.

In the European and Asia-Pacific regions, financial institutions remain the dominant provider of payment processing services to merchants, although the outsourcing of back-end processing services to third party service providers is becoming more prevalent. Throughout all markets, 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.

We also provide electronic money transfer services to consumers in the United States and Europe who send money to Latin America, Morocco, the Philippines, Romania, Poland and other destinations. Unlike our major competitors in the Latin American corridor that operate an agent-based network, we generally utilize a branch-owned network strategy at the point of sale. We believe that this differentiation allows us to be more flexible and competitive when setting our prices and introducing new products and services.

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 and money transfer industries 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.

In the Canadian market, Visa, MasterCard and Interac are planning to migrate to cards containing chip technology over the coming years. 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 computer equipment and merchant terminals necessary to accept and process the chip card compliant transactions in the Canadian marketplace. We have developed a long-term plan to ensure our merchants will benefit from the migration to chip technology in the Canadian market. In addition, we have begun to deploy chip card-capable terminals in the Canadian market. Chip card technology is already prevalent in the European and Asia-Pacific markets.

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 speed up 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 emerging 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.

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Target Markets

We believe that significant global opportunities exist for continued growth in the application of electronic transaction payment processing and money transfer 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 ability of payment cards to facilitate economic growth are rapidly transforming the electronic commerce market into a global payments opportunity. Additionally, increased migration trends led by the rapid globalization of the economy are also leading the way for increased electronic money transfer opportunities.

The growth of retail credit card transactions, as well as the rapid growth in the utilization of debit cards, directly correlates with the historic growth of our business. According to *The Nilson Report* dated April 2007, worldwide annual general purpose card purchase volume increased 15% to $5.2 trillion in 2006. General purpose cards include the major card association brands such as American Express, Discover, Diners Club, JCB, MasterCard and Visa. In Canada, general purpose cards also include Interac debit cards.

The Nilson Report dated February 2007 estimates that more than $2.4 trillion of annual consumer spending was charged in 2006 using general purpose cards in the United States, a 13% increase from 2005. Based on figures reported in *The Nilson Report* dated April 2007, $336 billion (U.S.) of annual Canadian consumer spending uses general purpose cards as the form of payment, representing an increase of 11% over 2005. *The Nilson Report* dated May 2007 estimates that $1.4 trillion of annual consumer spending was charged in 2006 using general purpose cards in Europe, a 13% increase from 2005.

We process in ten countries and territories in the Asia-Pacific region. This market includes almost 40% of the world s population and 70% of the total Asia-Pacific population according to the *CIA World Factbook*. The gross domestic product of the countries and territories in this market as a whole grew 13% per year on average between 2001 and 2005 according to the World Bank s World Development Indicators database. We believe there are significant, long-term growth opportunities for payment processing in this market.

Equally as attractive has been the increase in the number of international immigrants, which the United Nations Population Division estimates has increased from 75 million in 1960 to 191 million at the end of 2005. In addition, the United Nations projected that migration from developing to industrial countries will average 2.3 million people per year between 2007 and 2050. The World Bank estimates that over $268 billion was remitted internationally worldwide in 2006 with a significant portion of the volume originating in the United States. In 2006, the Pew Hispanic Center estimated that approximately 12.6 million Latin American immigrants reside within the United States and regularly send money home. According to the Inter-American Development Bank, the expected value of electronic money transfer remittances to the Latin American market in 2006 was estimated to be almost $62.3 billion, of which $45 billion is estimated to be from the United States.

Strategy

In pursuing our business strategy, we seek to increase our penetration in existing markets, expand into new geographic regions, as represented by our acquisitions in the Asia-Pacific and European regions, and expand into new payment areas, as represented by our acquisitions of DolEx and Europhil in the electronic money transfer service industry. We believe that this strategy provides us with the greatest opportunity to expand our existing business, leverage our existing infrastructure, and maintain a consistent base of recurring revenues, thereby maximizing shareholder equity and acquisition returns on investment. We intend to accomplish this overall strategy as follows:

Existing offerings

In pursuing this business strategy, we intend to increase our penetration of existing markets and to further leverage our infrastructure. Our objectives to execute this strategy include the following:

- expand our direct merchant services distribution channels, primarily our existing sales force, ISOs, VARs and other referral relationships;

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- 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 and Asia-Pacific region by concentrating on the small and mid-market merchant segments;
- grow our indirect merchant services market share in Europe by concentrating on financial institutions with an existing or an emerging focus on merchant acquiring, card issuing, and credit scoring;
- grow our money transfer customer base and market share by expanding our branch and settlement locations and offering competitive pricing;
- 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
- focus on potential domestic and international acquisitions or investments and alliances with companies that have high growth potential 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, such as Latin America, Europe and the Asia-Pacific region. We may expand our direct merchant services, indirect merchant services and money transfer offerings into these markets, either organically or through acquisitions. We are evaluating these markets due to the following attractive characteristics:

- currently low but growing credit and debit card utilization;
- high level of immigrants who desire to send money using a non-bank provider;
- the absence of a dominant merchant acquirer or processor; and
- potential to satisfy our acquisition strategy.

Infrastructure

Our focus on the 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 operating platforms.

We continue to make progress on our next generation technology processing platform. This platform is planned to be a new front-end operating environment for our merchant processing in the United States, Asia-Pacific, and Canada, and is intended to replace several legacy platforms that have higher cost structures. Aside from cost advantages, there are many 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 compliance with EMV and PCI standards. In addition, the platform is being designed as a potential integration platform for future acquisitions, which may help us achieve higher acquisition synergies in the future.

Maximize corporate returns

Finally, we believe we will maximize corporate returns by leveraging our core technology and operational capabilities and continue cost reduction initiatives to maximize shareholder equity and acquisition returns on investment. Currently, we have the following multi-year initiatives, among others, underway that we expect will facilitate this goal:

- developing a new technology platform that will enable us to consolidate our front-end platforms in the United States and Canada;

- migrating the Asia-Pacific back-end and front-end platforms away from HSBC and onto our own platforms;
- continuing integration of Europhil s operations into our existing DolEx operations;
- continuing integration of Diginet s operations into our existing Global Payments Europe operations;
- pursuing price reductions from our vendor relationships; and
- streamlining of management positions and operating functions.

Compliance

Money Transfer Licensing and Regulations

We are subject to various U.S. federal, state and foreign laws and regulations governing money transmission and the sale of payment instruments, such as official checks and money orders.

In the United States, most states license consumer money transfer service providers and issuers of money orders such as DolEx. The applicable state statutes and regulations typically require DolEx to obtain and maintain certain required licenses as a condition to performing these activities. These statutes and regulations generally require DolEx to: (a) satisfy minimum net worth requirements; (b) procure and maintain a surety bond with minimum statutory levels of coverage; (c) demonstrate the character and fitness of the officers and directors of DolEx; and (d) subject itself to periodic financial audits.

The money transfer service offering also is subject to regulation by various agencies of the federal government that are charged with implementing and enforcing anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, collectively referred to as the BSA. The BSA, among other things, requires money transfer companies to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity, and to maintain transaction records. In addition, certain economic and trade sanctions programs that are administered by the Treasury Department s Office of Foreign Assets Control, or OFAC, prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations.

Global Payments European money transfer companies, created through Europhil, our acquisition in December 2004, are regulated by various governmental agencies in Spain, Belgium, and the United Kingdom in their money transfer activities. Prior to its acquisition by Global Payments, Europhil received approval from these governmental agencies to act as a money transfer service provider. These governmental agencies generally require Europhil to: (a) satisfy minimum share capital requirements; (b) periodically submit information regarding financial results, changes in corporate documentation or ownership, insurance, and other relevant information; (c) register and maintain transaction information; (d) maintain adequate insurance coverage; (e) ensure the transparency of the conditions of the transactions to its customers; (f) implement safeguards and restrictions to prevent money laundering; and (g) subject itself to periodic audits.

In addition, the money transfer service offerings are subject to regulation in the settlement countries in which DolEx and Europhil offer their services. These regulations may include limitations on what types of entities may offer money transfer services, limitations on the amount of principal that can be moved into or out of a country, limitations on the number of money transfers that may be received by a customer, limitations on the exchange rates between foreign currencies, and regulations intended to help detect and prevent money laundering.

DolEx and Europhil have developed compliance programs to monitor regulatory requirements and developments and to implement policies and procedures to help satisfy these requirements in each origination and settlement jurisdiction. In addition, our use of a U.S. and European branch network for the origination of electronic money transfers, rather than an agent model typically utilized by our larger competitors, allows greater control over our regulatory compliance.

Where to Find More Information

We file annual and quarterly reports, proxy statements and other information with the SEC. You may read and print materials that we have filed with the SEC from their 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 thereto 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.)

New York Stock Exchange, Inc.

20 Broad Street

New York, NY 10005

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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 certification and financial institution sponsorship.

In order to provide our transaction processing services, we must be designated a certified processor by, and be a merchant service provider of, MasterCard and an independent sales organization of Visa. These designations are dependent upon our being sponsored by member clearing banks of both organizations and our continuing adherence to the standards of the Visa and MasterCard associations. There are a limited number of member clearing banks worldwide that are willing to sponsor certified processors, such as us, and attaining new sponsorship agreements is highly difficult. The member financial institutions of Visa and MasterCard, some of which are our competitors, set the standards with which we must comply. If we fail to comply with these standards, our designation as a certified processor, a merchant service provider or as an independent sales organization could be suspended or terminated. The termination of any of these designations, the loss of any of our four primary sponsor banks, or any changes in the Visa and MasterCard rules that prevent our registration or otherwise limit our ability to provide transaction processing and marketing services for the Visa or MasterCard organizations would likely result in the loss of merchant customers and lead to a material reduction in our revenues and earnings.

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. If an ISO switches to another transaction processor, we will no longer receive new merchant referrals from the ISO. In addition, we risk losing existing merchants that were originally enrolled by the ISO. Consequently, if a key ISO switches to another transaction processor, our revenues and earnings could be negatively affected.

We are exposed to foreign currency risks because of our significant card processing operations in Canada, the Czech Republic, and those in the Asia-Pacific region, as well as our significant electronic money transfer operations in the U.S. and Europe.

We have significant operations in Canada which are denominated in Canadian dollars. In addition, we have significant operations in the Asia-Pacific region, the Czech Republic and Spain. 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 U.S. dollars.

We also have significant money transfer operations in the U.S. and Europe which subject us to foreign currency exchange risks as our customers deposit funds in the local currencies of the originating countries where our branches are located, and we typically deliver funds denominated in the home country currencies to each of our settlement locations.

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 and money transfer markets. Our primary competitors in these markets include other independent processors and electronic money transmitters, as well as certain major national and regional banks, financial institutions and independent sales organizations. Companies who are larger than we are have greater financial and operational resources than we have. This 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.

Our money transfer service offerings are dependent on financial institutions to provide such offerings.

Our money transfer service offerings involve transferring funds internationally and are dependent upon foreign and domestic financial institutions, including our competitors, to execute funds transfers and foreign currency transactions. Changes to existing regulations of financial institution operations, such as those designed to combat terrorism or money laundering, could require us to change our operational procedures in such a way that might increase our costs of doing business or could require us to terminate certain product offerings. In addition, as a result of existing regulations and/or changes to such regulations, financial institutions could decide to cease providing the services on which we depend entirely, requiring us to terminate certain product offerings in specifically impacted markets. In fact, several significant financial institutions have ceased providing such services as a result of existing regulations, which, in a particular instance, required us to rapidly switch to different financial institution providers of these services. In the future, if we are not able to purchase these services from significant regional or national financial institutions, this would likely result in a material reduction to our money transfer revenue and earnings.

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

A 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. In the event, however, that we are not able to collect such amounts from the merchants, due to merchant fraud, insolvency, bankruptcy or any other reason, we may be liable for any such charges. Any risks associated with an unexpected recessionary economy that we could not mitigate may result in lower revenues and earnings for us. Although we believe our historical loss rates are within or below industry averages, we process billions of dollars in annual Visa and MasterCard volume that are subject to these risks.

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 and money transfer markets in which we compete include a wide range of products and services including electronic transaction payment processing, money transfer, transaction reporting and other customer support services. 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 and money transfer 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 could render them less desirable to our customers, or possibly even obsolete. In addition, the products and services we deliver to the electronic payments and money transfer 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 performance issue that arises with a new product or service could result in significant processing or reporting errors. 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.

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Security breaches or system failures could harm our reputation and adversely affect future earnings.

We handle personal consumer data, such as names, credit and debit account numbers, checking account numbers and payment history records. 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 and to prevent failure of, and to provide backup for, our systems, we cannot be certain that our measures will be successful. A security breach or other misuse of such data, or failures of key operating systems and their back-ups, 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 including the imposition of penalties and fines under state, federal and foreign laws, and adversely affect our continued Visa and MasterCard certification and financial institution sponsorship.

Reduced levels of consumer spending can 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 and consumer electronic money transfer transactions. Any recession or economic downturn in the United States or any other country where we do business could negatively impact consumer spending and adversely affect our revenues and earnings.

Changes in state, federal and foreign laws and regulations affecting the electronic money transfer industry might make it more difficult for our customers to initiate money transfers, which would adversely affect our revenues and earnings.

If state, federal or foreign authorities adopt new regulations or raise enforcement levels on existing regulations that make it more difficult for our customers to initiate, or their beneficiaries to receive, electronic money transfers, then our revenues and earnings may be negatively affected. This particular topic has been widely debated in the United States at both the state and federal levels, with a currently unclear outcome. Any regulation or enforcement practices that are more restrictive than historical levels that relate to Latin American immigrants, including those who are not legal residents of the United States, could adversely impact our electronic money transfer revenue and earnings.

Changes in immigration patterns can adversely affect our revenues and earnings from electronic money transfers.

Our electronic money transfer business primarily focuses on customers who immigrate to the United States from Latin American countries in order to find higher paying jobs and then send a portion of their earnings to family members in Latin America. In addition, our electronic money transfer business also focuses on customers who immigrate to Belgium, the United Kingdom, and Spain from Latin American countries, Morocco, the Philippines, Romania, Poland and other countries. Any changes in these immigration patterns for any reason, including government policies or enforcement, may negatively affect the number of immigrants in Belgium, the United Kingdom, the United States, Spain and any new countries in which we expand our money transfer service offering in the future, which may reduce our customer base and our corresponding revenues and earnings.

In order for us to continue to grow and increase our profitability, we must continue to expand our share of the existing electronic payments and money transfer 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, including internet payment systems, 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 products and distribution channels that will satisfy the demands of these new markets. If we fail to expand into new and existing electronic payments and money transfer markets, we may not be able to continue to grow our revenues and earnings.

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

From time to time, 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 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.

Utility and system interruptions or processing errors 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. Furthermore, with respect to certain processing services, we are dependent on the systems and services of third party vendors. Telecommunications services and the electricity supply are susceptible to disruption. Computer system interruptions and other processing errors, whether involving our own systems or the systems operated by our third party vendors, may result from such disruption or from human error or other unrelated causes. Any extensive or long-term disruptions in our processing services could cause us to incur substantial additional expense and the loss of customers, which could have an adverse effect on our operations and financial condition.

The integration 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 integration of these businesses with ours presents several challenges, including the fact that they may be based in the regions where we do not currently have operations. If the integration process does not proceed smoothly, the following factors could reduce our revenues and earnings, increase our operating costs, and/or result in a loss of projected synergies:

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

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

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.

Loss of strategic industries could reduce revenues and earnings.

Although our merchant acquiring portfolio is well diversified and neither one economic sector nor any customer concentration represents a significant portion of our business, a decrease in strategic industries could cause us to lose significant revenues and earnings.

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 and money transfer industries, 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.

We may become subject to additional United States, state or foreign taxes that cannot be passed through to our merchant services or money transfer 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.

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. Section 404 also requires our independent registered public accounting firm to attest to, and report on, management s assessment of our internal controls over financial reporting. 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. During the first fiscal quarter of 2007, we completed the purchase of a fifty-six percent ownership interest in the merchant acquiring business of The Hongkong and Shanghai Banking Corporation Limited, or HSBC. This business provides card payment processing services to merchants in the Asia-Pacific region. The business includes

HSBC s payment processing operations in the following ten countries and territories: Brunei, China, Hong Kong, India, Macau, Malaysia, Maldives, Singapore, Sri Lanka and Taiwan. In conjunction with this acquisition, we entered into a transition services agreement with HSBC that may be terminated at any time. Under this agreement, we expect HSBC will continue to perform payment processing operations and related support services until we integrate these functions into our own operations. Until we can integrate the acquisition s financial reporting function 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 s 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.

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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.

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

The payment of dividends and repurchase of shares are at the discretion of our Board of Directors and will be subject to our financial results, our working capital requirements, the availability of acquisitions and other business opportunities, the availability of surplus funds, interest rate levels, our stock price levels and restrictions under financing agreements. No assurance can be given that we will be able to or will choose to pay any dividends or repurchase any shares in the foreseeable future.

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, 2007:

Type of Facility	Leased	Owned
Facilities in the United States:		
Multi-Purpose (Operations, Sales, Administrative)	2	
Operations/Customer Support	24	
Sales and money transfer retail branches	921	2
	947	2
International Facilities:		
Multi-Purpose (Operations, Sales, Administrative)	8	3
Operations/Customer Support	12	1
Sales and money transfer retail branches	75	4
	95	8
Total	1,042	10

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Our principal facilities in the United States are located in Atlanta, Georgia; Owings Mills, Maryland; Arlington, Texas; Niles, Illinois and St. Louis, Missouri. Our principal international facilities are located in Toronto, Canada; Prague, Czech Republic; the Hong Kong Special Administrative Region; Mexico City, Mexico; Monterrey, Mexico and Madrid, Spain. The majority of our sales facilities are money transfer originating retail branches.

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

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, 2007.

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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 2007 and 2006. 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 2007			
First Quarter	$ 49.84	$ 36.48	$ 0.02
Second Quarter	46.15	37.31	0.02
Third Quarter	49.13	37.38	0.02
Fourth Quarter	41.43	30.00	0.02
Fiscal 2006			
First Quarter [1]	$ 35.76	$ 30.58	$ 0.02
Second Quarter [1]	44.74	32.29	0.02
Third Quarter	52.75	42.50	0.02
Fourth Quarter	54.78	44.19	0.02

[1] Stock prices and dividends per share restated to reflect two-for-one stock split effected in the form of a stock dividend distributed October 28, 2005.

The number of shareholders of record of our common stock as of July 18, 2007 was 2,481.

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, 2007.

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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, 2002 and assumes reinvestment of all dividends.

	Global Payments	S&P 500	S&P Information Technology
May 31, 2002	$ 100.00	$ 100.00	$ 100.00
May 31, 2003	94.20	91.94	94.48
May 31, 2004	129.77	108.79	115.24
May 31, 2005	193.30	117.75	116.29
May 31, 2006	260.35	127.92	117.14
May 31, 2007	224.24	157.08	144.11

Issuer Purchases of Equity Securities

On April 5, 2007, our Board of Directors authorized repurchases of our common stock in an amount up to $100 million. The Board has authorized us to purchase shares from time to time as market conditions permit. There is no expiration date with respect to this authorization. No amounts have been repurchased during the fiscal year ended May 31, 2007.

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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. The income statement data for each of the three fiscal years ended May 31, 2007, and the balance sheet data as of May 31, 2007 and 2006 are derived from the audited consolidated financial statements included elsewhere in this annual report. The income statement data for each of the two fiscal years ended May 31, 2004 and the balance sheet data as of May 31, 2005 and 2004 were derived from audited consolidated financial statements included in our Form 10-K for the fiscal year ended May 31, 2005. The balance sheet data as of May 31, 2003 was derived from audited consolidated financial statements included in our Form 10-K for the fiscal year ended May 31, 2004.

	For Years Ended May 31, (in thousands, except per share data)				
	2007	**2006**	**2005**	**2004**	**2003**
Income statement data:					
Revenue	$ 1,061,523	$ 908,056	$ 784,331	$ 629,320	$ 516,084
Operating income (1)	218,089	201,088	160,101	112,901	93,265
Net income	142,985	125,524	92,896	62,443	53,300
Per share data: (2)					
Basic earnings per share	$ 1.78	$ 1.59	$ 1.20	$ 0.83	$ 0.72
Diluted earnings per share	1.75	1.53	1.16	0.80	0.70
Dividends per share	0.08	0.08	0.08	0.08	0.08
Balance sheet data:					
Total assets	$ 1,200,629	$ 1,018,678	$ 853,505	$ 862,774	$ 534,400
Line of credit			50,000	122,000	
Line of credit with CIBC			8,606	83,109	33,900
Obligations under capital leases		746	2,441	3,251	4,707
Total shareholders equity	957,776	770,223	578,350	449,422	366,426

(1) Includes restructuring and other charges of $3,088, $1,878, $3,726, $9,648 and $1,257 in fiscal 2007, 2006, 2005, 2004 and 2003, respectively. See Note 9 of the notes to consolidated financial statements for a more detailed discussion of fiscal 2007, 2006 and 2005 restructuring and other charges.

(2) Fiscal 2003 and 2004 per share amounts restated to reflect two-for one stock split effected in the form of a stock dividend distributed October 28, 2005.

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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 payment processing and consumer money transfer company. As a high-volume processor of electronic transactions, we enable 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 payment transaction or money transfer can be completed. 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 provided transaction processing services since 1967.

We market our products and services throughout the United States, Canada, Europe and the Asia-Pacific region. We operate in two business segments, merchant services and money transfer, and we offer various products through these segments. Our merchant services segment targets customers in many vertical industries including financial institutions, government, professional services, restaurants, universities, utilities, gaming, retail and health care. Our money transfer segment primarily targets immigrants in the United States and Europe. See Note 10 in the notes to consolidated financial statements for additional segment information.

Our offerings in the merchant services segment provide merchants, independent sales organizations, or ISOs, and financial institutions with credit and debit card transaction processing, as well as check-related services. 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, 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. We also offer sales, installation, and servicing of ATM and point of sale, or POS, terminals and selected card issuing services, which are components of indirect merchant services, through Global Payments Europe, s.r.o., formerly known as MUZO, which is our subsidiary based in the Czech Republic. Our direct merchant services are marketed in the United States, Canada, and throughout the Asia-Pacific region, while our indirect merchant services are marketed in the United States, Canada, and Europe.

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 for other processing fees unrelated to the number of transactions or the transaction value.

Our money transfer segment provides money transfer services. A majority of the revenue derived from our money transfer offering consists of our electronic money transfer services marketed under our DolEx brand to the growing population of first and second generation Latin Americans living in the United States. This consumer segment regularly transfers money to family and friends living in Latin America. Following the Europhil

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acquisition in December 2004, we expanded our money transfer origination locations into Europe and our settlement locations to Morocco, the Philippines, Romania, Poland and other new destinations.

Our products and services are marketed through a variety of distinct sales channels that include a dedicated direct sales force, ISOs, an internal telesales group, retail outlets, trade associations, alliance bank relationships and financial institutions.

Executive Overview

In the year ended May 31, 2007, or fiscal 2007, revenue increased 17% to $1,061.5 million from $908.1 million in the year ended May 31, 2006, or fiscal 2006. This revenue growth was primarily due to our domestic direct and new Asia-Pacific merchant services channels. Consolidated operating income was $218.1 million for fiscal 2007, compared to $201.1 million for fiscal 2006, which resulted in a decrease in operating margin to 20.5% for fiscal 2007 from 22.1% for fiscal 2006. Net income increased $17.5 million, or 14%, to $143.0 million in fiscal 2007 from $125.5 million in the prior year, resulting in a $0.22 increase in diluted earnings per share to $1.75 in fiscal 2007 from $1.53 in fiscal 2006.

Merchant services segment revenue increased $140.6 million or 18% to $929.1 million in fiscal 2007 from $788.5 million in fiscal 2006, and money transfer segment revenue increased $12.8 million or 11% to $132.4 million in fiscal 2007 from $119.6 million in fiscal 2006. Merchant services segment operating income increased 16% to $259.7 million in fiscal 2007 from $224.2 million in fiscal 2006, with operating margins of 27.9% and 28.4% for fiscal 2007 and 2006, respectively. Money transfer segment operating income decreased 23% to $14.5 million in fiscal 2007 from $18.7 million in fiscal 2006, with operating margins of 10.9% and 15.7% for fiscal years 2007 and 2006, respectively.

The consolidated operating income and earnings per share amounts reflect restructuring and other charges of $3.1 million and $1.9 million in fiscal 2007 and fiscal 2006, respectively. Restructuring and other charges represented 0.3% and 0.2% of revenue in fiscal 2007 and 2006, respectively. These charges primarily relate to employee termination benefits, fixed asset abandonment and facility closure costs due to facility consolidations and the elimination of redundant activities. Please see Note 9 in the notes to consolidated financial statements for more information.

In March 2007, we decided to consolidate our technical support center located in St. Louis, Missouri into our operations center in Owings Mills, Maryland. We believe this consolidation will improve our customer service by allowing us to provide our customers with a single point of contact in one physical location. This consolidation will result in staff reduction, fixed asset abandonment and facility closure costs and is expected to be completed during our second quarter of fiscal 2008.

In March 2007, we also decided to consolidate an operations facility in Denver, Colorado into our Niles, Illinois operations facility, which we believe will improve the efficiency of our check service offering. This consolidation, which resulted in staff reduction and facility closure costs, was completed during the fourth quarter of fiscal 2007.

Components of Income Statement

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.

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

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.

Other income and expense consists primarily of interest income and interest expense.

Results of Operations

Fiscal Year Ended May 31, 2007 Compared to Fiscal Year Ended May 31, 2006

The following table shows key selected financial data for the fiscal years ended May 31, 2007 and 2006, this data as a percentage of total revenue, and the changes between fiscal years in dollars and as a percentage of fiscal 2006.

	2007	% of Revenue (1)	2006	% of Revenue (1)	Change	% Change
			(dollar amounts in thousands)			
Revenues:						
Domestic direct	$ 558,026	53%	$ 481,273	53%	$ 76,753	16%
Canada	224,570	21	208,126	23	16,444	8
Asia-Pacific	48,449	5			48,449	
Central and Eastern Europe	51,224	5	47,114	5	4,110	9
Domestic indirect and other	46,873	4	51,987	6	(5,114)	(10)
Merchant services	929,142	88	788,500	87	140,642	18
Domestic	115,416	11	109,067	12	6,349	6
Europe	16,965	2	10,489	1	6,476	62
Money transfer	132,381	12	119,556	13	12,825	11
Total revenues	$ 1,061,523	100%	$ 908,056	100%	$ 153,467	17%
Consolidated operating expenses:						
Cost of service	$ 414,837	39.1%	$ 358,020	39.4%	$ 56,817	16%
Sales, general and administrative	425,509	40.1	347,070	38.2	78,439	23
Restructuring and other	3,088	0.3	1,878	0.2	1,210	64
Operating income	$ 218,089	20.5%	$ 201,088	22.1%	$ 17,001	8%

Operating income for segments:				
Merchant services	$ 259,670	$ 224,221	$ 35,449	16%
Money transfer	14,476	18,741	(4,265)	(23)
Corporate	(52,969)	(39,996)	(12,973)	(32)
Restructuring and other	(3,088)	(1,878)	(1,210)	(64)
Operating income	$ 218,089	$ 201,088	$ 17,001	8%
Operating margin for segments:				
Merchant services segment	27.9%	28.4%	(0.5)%	
Money transfer segment	10.9%	15.7%	(4.8)%	

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

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Revenues

In fiscal 2007, revenue increased 17% to $1,061.5 million from $908.1 million for fiscal 2006. We attribute this revenue growth primarily to our domestic direct and new Asia-Pacific merchant services channels. We intend to continue to grow our domestic and international presence, build our ISO sales channel, increase customer satisfaction, assess opportunities for profitable growth through acquisitions, pursue enhanced products and services for our customers, and leverage our existing business model. We expect our fiscal 2008 consolidated revenue to range from $1,168 million to $1,220 million, reflecting growth of 10% to 15% over fiscal 2007.

Merchant Services Segment

Revenue from our merchant services segment for fiscal 2007 increased by $140.6 million or 18% to $929.1 million from $788.5 million for fiscal 2006.

We have continued to grow our domestic direct merchant services channel by adding small and mid-market merchants in diversified vertical markets, primarily through our ISOs. For fiscal 2007, our credit and debit card processed transactions grew 25% and our revenue grew 16% for this channel compared to the prior year. The difference between our transaction growth and revenue growth is primarily a result of a mid single digit percentage decline compared to the prior year in our domestic direct credit card average dollar value of transaction, or average ticket, due to a shift toward smaller merchants added through our ISOs. Our average discount revenue per dollar value volume, or spread, was constant compared to the prior year and, therefore, did not impact the difference between our transaction growth and revenue growth. Our spread was favorably impacted by the shift towards smaller merchants added through our ISOs. Smaller merchants tend to have lower average tickets and higher spreads than larger merchants. This favorable impact on spread was offset by pricing compression relating to merchants added through our direct sales force. Aside from the decline in average ticket described above, the remaining difference between our transaction growth and revenue growth is due to our domestic direct revenue that is not based on the amount of transactions or average ticket described above. This type of revenue includes service fees, equipment fees and check-related services. The total of this revenue grew at a lesser rate than our credit and debit card transaction growth. For fiscal year 2008, we expect annual revenue growth in the low teen to high teen percentage range for this channel.

For fiscal 2007, our Canadian direct credit and debit card processed transactions grew 4%, with overall Canadian revenue growth of 8% compared to the prior year. Our Canadian transaction growth was largely offset by mid single digit percentage declines in our average credit card spread, compared to the prior year. Our revenue growth for fiscal 2007 was primarily due to a favorable Canadian currency exchange rate and card association incentive revenue relating to various programs being implemented in the Canadian market. These card association incentives are not recurring in nature. For fiscal 2008, we expect annual revenue growth in the high single digit to low double digit percentage range for our Canadian channel.

Our Asia-Pacific merchant services revenue for fiscal 2007 was $48.4 million. We completed the purchase of our ownership in HSBC s merchant acquiring business on July 24, 2006, and began operating in this channel at that time. For fiscal 2008, we expect to achieve Asia-Pacific merchant services revenue growth of 30% to 40% compared to fiscal 2007. We expect to realize this growth through enhancing our Asia-Pacific direct sales force, in addition to the benefit of growth in the industry and the impact of reporting a full year of results in fiscal 2008 compared to a partial year in fiscal 2007.

Our Central and Eastern European merchant services revenue for fiscal 2007 increased 9% compared to the prior year period, largely due to a favorable Czech currency exchange rate, the impact of our Diginet acquisition and growth in credit and debit card processed transactions of

15%. These factors were partially offset by the impact of price reductions granted on contract renewals. The deconversion process of the large customer that announced its intention to deconvert prior to the completion of our MUZO acquisition was substantially completed during fiscal 2007. We expect annual fiscal 2008 revenue growth for this channel in the mid single digit to low double digit percentage range.

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We experienced continued and expected declines in our domestic indirect and other channel, with a 4% year-over-year decline in credit and debit card transactions processed and a 10% decline in revenue for fiscal 2007. We attribute these revenue declines to the industry consolidation of financial institutions and competitive pricing pressures. For fiscal 2008, we expect an annual revenue decline in the low single digit to high single digit percentage range for this channel.

Money Transfer Segment

For fiscal 2007, our domestic money transfer channel transactions grew 18% and revenue grew 6%, compared to fiscal 2006. The growth in transactions was driven primarily by same store sales growth and an increasing domestic branch footprint resulting in 875 domestic branches as of May 31, 2007, compared to 835 domestic branch locations as of May 31, 2006. The difference between our transaction growth and our revenue growth is due to lower pricing compared to the prior year, which is consistent with our strategy of price leadership. During fiscal 2007, we experienced a highly competitive pricing environment. We believe that fewer immigrants may be coming to the United States due to increased immigration legislation and enforcement and an improving Mexican economy, which may be contributing to this environment. Our fiscal 2007 revenue was also negatively impacted by one of our landlords entering the money transfer business and competing with us. As a result, we exited those locations, opened new locations nearby, and responded to aggressive price competition from this landlord to pursue the existing customer base.

In Europe, we ended fiscal 2007 with 68 branch locations, compared to 40 locations as of May 31, 2006. For fiscal 2007, our European money transfer revenue grew 62%, with transaction growth of 73%. This growth is largely due to new branch locations compared to the prior year.

For fiscal 2008, we expect annual revenue growth in the mid single digit to low double digit percentage range for our money transfer segment. We will continue to focus on expanding our domestic and European branch network and to operate as a low-cost provider of money transfer services targeted to immigrant consumers. For the long term, we will also focus on new product opportunities as part of our strategic objective to provide a host of financial services to our customers.

Consolidated Operating Expenses

Cost of service increased 16% to $414.8 million for fiscal 2007 compared to $358.0 million in fiscal 2006. As a percentage of revenue, cost of service decreased to 39.1% of revenue for fiscal 2007 from 39.4% in fiscal 2006.

In fiscal 2007, the decline in cost of service as a percentage of revenue is partially related to our revenue growth and the related economies of scale benefits. In addition, this decline is related to several cost factors, including savings from exiting our shared service agreement with our former parent company and a decline in year-over-year operating costs from our domestic and Canadian customer service and back-office centers, including our Dallas facility that we closed in November 2005. In addition, as described in Note 1 in the notes to consolidated financial statements, during the quarter ended August 31, 2005, we recognized an impairment loss of $2.2 million in connection with the MUZO trademark, which is included in cost of service in the accompanying consolidated statement of income for fiscal 2006.

Sales, general and administrative expenses increased by $78.4 million or 23% to $425.5 million for fiscal 2007 from $347.1 million for fiscal 2006. As a percentage of revenue, these expenses increased to 40.1% for fiscal 2007 compared to 38.2% for fiscal 2006.

The increases in sales, general and administrative expenses are primarily due to growth in commission payments to ISOs resulting from the increased revenue in this sales channel. 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. The ISO commission model differs from our other sales channels where the commissions are primarily paid for only a twelve-month period. The addition of our new Asia-Pacific channel also contributed to the increases in sales, general and administrative expenses due to the investment in the regional sales force and infrastructure.

In addition, sales, general and administrative expenses increased for fiscal 2007 compared to fiscal 2006 as a result of our adoption, using the modified prospective method, of Statement of Financial Accounting Standards No. 123 (revised 2004): *Share-based Payment*, or FAS 123R, on June 1, 2006. For additional information concerning our adoption of FAS 123R and our share-based awards and options, you should refer to Notes 1 and 8 in the notes to consolidated financial statements. The total share-based compensation cost that has been included in sales, general and administrative expenses for our share-based awards and option plans was $15.2 million for fiscal 2007. The total share-based compensation cost that has been included in sales, general and administrative expenses for our share-based awards and option plans was $2.8 million for fiscal 2006. During fiscal 2007, we recognized $12.4 million in incremental employee stock option expense as a result of FAS 123R.

Operating Income and Operating Margin for Segments

For the purpose of discussing segment operations, management refers 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.

Merchant Services Segment

Operating income in the merchant services segment increased 16% to $259.7 million for fiscal 2007 compared to $224.2 million for fiscal 2006. This change resulted in an operating margin of 27.9% for fiscal 2007, compared to 28.4% for fiscal 2006. Our operating margin decreased for fiscal 2007 primarily due to the increases in ISO commission payments and the addition of, and our investment in, our new Asia-Pacific channel, offset by merchant services revenue growth and the cost of service savings discussed above. We are expecting fiscal 2008 total merchant services operating income margin in the 25.5% to 25.9% range. The anticipated decline in this margin compared to fiscal 2007 is primarily due to strong expected growth in our ISO channel, which generally has a dilutive effect on our operating margin, as discussed above.

Money Transfer Segment

Operating income in the money transfer segment decreased 23% to $14.5 million for fiscal 2007 compared to $18.7 million for fiscal 2006. This decrease resulted in an operating margin of 10.9% for fiscal 2007, compared to 15.7% for fiscal 2006. This operating margin decline was primarily due to the increased price competition discussed above and our use of a fixed-cost, branch-owned model at the point of sale. We are expecting fiscal 2008 total money transfer operating income margin in the low double digit percentage range.

Corporate

Our corporate expenses primarily include costs associated with our Atlanta headquarters, insurance, employee incentive programs, Board of Directors   fees, and certain corporate staffing areas, including finance, accounting, legal, human resources, marketing, and executive. For fiscal 2007, corporate also includes expenses associated with our share-based compensation. Our corporate costs increased 32% to $53.0 million for fiscal 2007 compared to $40.0 million for fiscal 2006. These increases are primarily due to share-based compensation costs related to our implementation of FAS 123R, as described above. For fiscal 2008, we expect corporate expenses to grow in the low single digit to mid single digit percentage range.

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Restructuring and Other Charges

During the fourth quarter of fiscal 2007, we committed to plans to close two locations and consolidate their functions into existing locations, which is consistent with our strategy to leverage infrastructure and consolidate operations. These restructuring plans will require staff reduction and facility closure costs and are expected to be completed during our second quarter of fiscal 2008. We recorded restructuring and other charges of $3.1 million in fiscal 2007, and we expect to incur approximately $1.7 million in such charges during fiscal 2008. In fiscal 2006, we incurred $1.9 million in restructuring charges in connection with our 2005 restructuring plans.

Consolidated Operating Income

Consolidated operating income increased $17.0 million or 8% to $218.1 million for fiscal 2007 compared to $201.1 million for fiscal 2006. This change resulted in an operating margin of 20.5% for fiscal 2007 compared to 22.1% for fiscal 2006. We expect fiscal 2008 total company operating income margin of between 19.1% and 19.5%, excluding the impact of restructuring and other charges relating to our facility consolidation programs as discussed above.

Consolidated Other Income/Expense, Net

Interest and other income increased $7.8 million to $8.2 million for fiscal 2007 compared to $0.4 million for fiscal 2006. This improvement is largely due to higher interest income due to higher cash balances and investment rates. During fiscal 2008, we expect approximately $12 million to $15 million in income from the net of our interest and other income and interest and other expense.

Provision for Income Taxes

In fiscal 2007, our tax rate, reflected as the provision for income taxes divided by income before income tax and minority interest, decreased to 32.4% from 33.5% in fiscal 2006. The changes in our effective tax rate are due to tax planning initiatives and the impact of international growth. We anticipate our fiscal 2008 effective tax rate will be between 32% and 33%. See Note 7 in the notes to consolidated financial statements for additional information.

Minority Interest, Net of Tax

Minority interest, net of tax increased $1.4 million to $9.9 million for fiscal 2007 compared to $8.5 million for fiscal 2006. This increase is due to our new HSBC merchant acquiring acquisition in the Asia-Pacific region. For fiscal 2008, we expect $9 million to $12 million in minority interest, net of tax.

Net Income and Diluted Earnings Per Share

Net income increased $17.5 million or 14% to $143.0 million for fiscal 2007 from $125.5 million for fiscal 2006. This increase resulted in a $0.22 increase in diluted earnings per share to $1.75 for fiscal 2007 compared to $1.53 for fiscal 2006. We expect diluted earnings per share to range from $1.85 to $1.94 for fiscal 2008, excluding the anticipated restructuring and other charges discussed above. Lastly, we expect approximately 82 million in average diluted shares outstanding for fiscal 2008, although this amount may be impacted by potential share repurchase activity.

New Accounting Pronouncements

Effective June 1, 2006, we adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004): *Share-based Payment* (FAS 123R). FAS 123R amends FAS 123 to require adoption of the fair-value method of accounting for employee stock options. Prior to adoption, we accounted for employee stock options at their intrinsic value, which generally did not result in the recognition of expense in the consolidated financial statements. We have elected to adopt FAS 123R using the modified prospective method of adoption as defined in FAS 123R, which requires us to expense the fair value of

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the unvested portion of stock options granted prior to the adoption date over the options remaining vesting periods and to expense the fair value of stock options granted subsequent to the adoption date over the options full vesting periods. We have elected to recognize expense related to the fair value of stock options granted subsequent to the adoption date on a straight-line basis. The fair value of options granted prior to the adoption date had been amortized on an accelerated basis.

Effective June 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*. 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 currently estimate that our liability for uncertain tax positions, which totals $3 million at May 31, 2007 under FAS 109 and FAS 5, will be between $4 million and $6 million as calculated under the measurement provisions of FIN 48. The cumulative effect of adopting FIN 48 is expected to be an increase in liabilities of between $1 million to $3 million with an equal, offsetting decrease to beginning retained earnings at June 1, 2007. FIN 48 will become effective for us on June 1, 2007.

Fiscal Year Ended May 31, 2006 Compared to Fiscal Year Ended May 31, 2005

The following table shows key selected financial data for the fiscal years ended May 31, 2006 and 2005, this data as a percentage of total revenue, and the changes between fiscal years in dollars and as a percentage of fiscal 2005.

	2006	% of Revenue (1)	2005	% of Revenue (1)	Change	% Change
			(dollar amounts in thousands)			
Revenues:						
Domestic direct	$ 481,273	53%	$ 410,047	52%	$ 71,226	17%
Canada	208,126	23	175,190	22	32,936	19
Central and Eastern Europe	47,114	5	40,598	5	6,516	16
Domestic indirect and other	51,987	6	62,033	8	(10,046)	(16)
Merchant services	788,500	87	687,868	88	100,632	15
Domestic	109,067	12	91,448	12	17,619	19
Europe	10,489	1	5,015	1	5,474	109
Money transfer	119,556	13	96,463	12	23,093	24
Total revenues	$ 908,056	100%	$ 784,331	100%	$ 123,725	16%
Consolidated operating expenses:						
Cost of service	$ 358,020	39.4%	$ 337,272	43.0%	$ 20,748	6%
Sales, general and administrative	347,070	38.2	283,232	36.1	63,838	23
Restructuring and other	1,878	0.2	3,726	0.5	(1,848)	(50)
Operating income	$ 201,088	22.1%	$ 160,101	20.4%	$ 40,987	26%
Operating income for segments:						
Merchant services	$ 224,221		$ 183,970		$ 40,251	22%
Money transfer	18,741		16,604		2,137	13
Corporate	(39,996)		(36,747)		(3,249)	(9)
Restructuring and other	(1,878)		(3,726)		1,848	50

Operating income	$ 201,088	$ 160,101	$ 40,987	26%
Operating margin for segments:				
Merchant services segment	28.4%	26.7%	1.7%	
Money transfer segment	15.7%	17.2%	(1.5)%	

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

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Revenues

Merchant Services Segment

For fiscal 2006, our credit and debit card processed transactions grew 18% and our revenue grew 17% for our domestic direct merchant services channel. This growth was largely due to success with our ISOs.

For fiscal 2006, our Canadian direct credit and debit card processed transactions grew 2%, with overall Canadian revenue growth of 19%. This improvement in revenue was partially a result of strategic pricing initiatives implemented during the fiscal quarters ended August 31, 2005 and February 28, 2005, in addition to the benefit from no longer processing under our low margin, high-risk Air Canada contract. Our Canadian revenue was also favorably impacted by a stronger year-over-year Canadian currency exchange rate.

Our Central and Eastern European merchant services revenue for the full year fiscal 2006 increased 16%, largely due to growth in credit and debit card processed transactions of 22%. Our revenue growth for this channel, however, slowed during the second half of fiscal 2006, primarily due to the impact of customer attrition, price reductions granted on contract renewals and an unfavorable year-over-year Czech currency exchange rate.

We experienced continued and expected declines in our domestic indirect and other channel, with a 12% year-over-year decline in credit and debit card transactions processed and a 16% decline in revenue. We attribute these declines to the industry consolidation of financial institutions and competitive pricing pressures.

Money Transfer Segment

For the full fiscal year 2006, our domestic money transfer channel transactions grew 29%, with revenue growth of 19%. This expansion was driven primarily by strong same store sales growth and an increasing domestic branch footprint resulting in a total of 835 domestic branches as of the end of the fiscal year. In Europe, we completed the fiscal year with 40 branch locations and experienced an improved organic revenue growth rate during the three months ended May 31, 2006. For fiscal 2006, our European money transfer revenue grew 109%, primarily since our Europhil acquisition did not annualize until December 2005.

Consolidated Operating Expenses

Cost of service decreased to 39.4% of revenue for fiscal 2006, compared to 43.0% for fiscal 2005. This decline is partially related to our revenue growth and the related economies of scale benefits. In addition, this decline is related to several cost factors: savings on telecommunications expenses resulting from vendor re-negotiations; savings from exiting our shared service agreement with our former parent company; a $2.6 million decrease in our merchant card operating losses which came about primarily as a result of improved risk management technology tools, improved collection efforts, and other operational improvements, particularly related to our Canadian merchants; a $4.7 million decrease in depreciation and amortization of property and equipment due to the timing of fully-depreciated computer hardware and Canadian merchant terminals; and a decline in operating costs from our customer service centers in the United States, including our closed Dallas facility. These cost reductions were partially offset by increases in our check guarantee and gaming losses of $4.9 million resulting primarily from growth in the channel and the unfavorable impact of Hurricane Katrina on our collection efforts and claims. Finally, as described in Note 1 in the notes to consolidated financial statements, during our first fiscal quarter ended August 31, 2005, we recognized an impairment loss of $2.2 million in connection with the MUZO trademark.

Cost of service increased by 6% to $358.0 million for fiscal 2006 compared to $337.3 for fiscal 2005. This increase was primarily due to growth in our money transfer branch network in the United States, assessments paid to Visa and MasterCard in connection with our credit card processed volume growth, the full year expense impact of our December 2004 Europhil acquisition, other variable costs associated with our revenue increases, and the other cost increases described above.

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Sales, general and administrative expenses increased to 38.2% of revenue for fiscal 2006, compared to 36.1% for fiscal 2005 and also increased 23% to $347.1 million for fiscal 2006 compared to $283.2 million for fiscal 2005. These increases are primarily due to growth in commission payments to ISOs resulting from the increased revenue in this sales channel, partially offset by vendor rate reductions and other cost containment initiatives. 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. The ISO commission model differs from our other sales channels where the commissions are primarily paid for a twelve-month period.

We completed our fiscal 2005 restructuring plans on November 30, 2005. These charges are discussed in Note 9 in the notes to consolidated financial statements.

Operating Income and Operating Margin for Segments

For the purpose of discussing segment operations, management refers to operating income as calculated by subtracting segment direct expenses from segment revenue. Overhead and shared expenses 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.

Merchant Services Segment

The 22% growth in our merchant services segment operating income for fiscal 2006 was driven primarily by the revenue increases discussed above and the improvement in operating margin to 28.4% in fiscal 2006 from 26.7% in fiscal 2005 for the segment. This operating margin improvement is a product of the merchant services revenue growth and cost of service savings discussed above, partially offset by the dilutive effect on operating margin of the growth of our ISO channel, also as discussed above.

Money Transfer Segment

The 13% growth in our money transfer segment operating income for fiscal 2006 was the result of the revenue increases discussed above, partially offset by the decline in operating margin to 15.7% in fiscal 2006 from 17.2% in fiscal 2005 for the segment. This operating margin decline was primarily a result of our Europhil acquisition. Due to the fixed-cost nature of our money transfer model and the relatively small size of our European presence, the Europhil branch network negatively impacted the overall money transfer operating margin by approximately 300 basis points during fiscal 2006.

Corporate

Our corporate expenses primarily include costs associated with our Atlanta headquarters, insurance, employee incentive programs, Board of Directors fees, and certain corporate staffing areas, including finance, accounting, legal, human resources, marketing, and executive. Our corporate costs declined as a percentage of total company revenue during fiscal 2006 compared to fiscal 2005. The 9% growth in our corporate costs for fiscal 2006 was primarily due to the impact of our revenue growth and recent acquisitions, in addition to increased spending on

Sarbanes-Oxley compliance and other accounting and audit-related efforts.

Restructuring and Other Charges

During the fourth quarter of fiscal 2005, we committed to plans to close a location and consolidate its and other functions into existing locations, which is consistent with our strategy to leverage infrastructure and consolidate operations. These restructuring plans required associated management and staff reductions and required contract termination and related facility closure costs in connection with an operating lease at one location during fiscal 2006. We recorded restructuring charges of $0.8 million in fiscal 2005 and incurred approximately $1.9 million in fiscal 2006 in connection with these plans. The fiscal 2005 charge was partially offset by a $0.4 million reduction to expenses arising from the favorable resolution of certain restructuring items related to the fiscal 2003 restructuring plans. In addition, during fiscal 2005 we recognized other charges of $3.3 million in connection with the termination of an executive officer, including $2.7 million related to acceleration of options, under his employment agreement.

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Consolidated Operating Income

The 26% growth in our consolidated operating income for fiscal 2006 was driven primarily by the revenue increases discussed above and the improvement in consolidated operating margin to 22.1%. This operating margin improvement was primarily due to the factors discussed above.

Consolidated Other Income/Expense, Net

The improvement in other income/expense, net to a slight income position was due to increased interest income resulting from higher accumulated cash balances, higher interest income investment rates, and reduced borrowings on our lines of credit during fiscal 2006. These favorable items were partially offset by increased interest expense related to our relationship with National Bank of Canada.

Net Income

The increase in net income resulted in a $0.37 increase in diluted earnings per share to $1.53 for fiscal 2006 from $1.16 in fiscal 2005. In fiscal 2006, our tax rate, reflected as the provision for income taxes divided by income before income tax and minority interest, decreased to 33.5% from 34.7% in fiscal 2005.

Liquidity and Capital Resources

Cash flow generated from operations provides us with a significant source of liquidity to meet our needs. At May 31, 2007, we had cash and cash equivalents totaling $308.9 million. As of May 31, 2007, our cash and cash equivalents included $112.2 million related to Merchant reserves. 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 the guidelines set by the card associations. See *Cash and cash equivalents* under Note 1 in the notes to consolidated financial statements for additional details.

Net cash provided by operating activities decreased to $191.1 million in fiscal 2007 from $234.8 million in fiscal 2006. The decrease in cash flow provided by operations was primarily due to unfavorable changes in working capital of $69.7 million, partially offset by an increase in net income. This working capital change was primarily due to the change in net settlement processing assets and obligations of $45.1 million and the change in income taxes payable of $25.6 million, partially offset by an increase in accounts receivable of $4.2 million. The change in income taxes payable is attributed to the timing and amount of estimated tax payments this year compared to last year.

The change in net settlement processing assets and obligations relates to timing differences, primarily relating to the merchant reserves held as collateral, and certain changes in settlement processing transactions in Canada. During fiscal 2006, we migrated a large portion of our Canadian Visa merchant portfolio away from same day value, which served to lower our settlement processing assets and caused a one-time cash inflow. Same day value is the practice of giving merchants value for credit card transactions on the date of the applicable sale even though we receive the corresponding settlement funds from Visa Canada/International at a later date. See *Settlement processing assets and obligations* under Note 1 in the notes to consolidated financial statements for additional details.

Net cash used in investing activities increased to $116.6 million in fiscal 2007 from $30.0 million in fiscal 2006 primarily due to the increase in business acquisition activities in fiscal 2007. Business acquisition activity in fiscal 2007 required $81.3 million for the HSBC merchant acquiring acquisition, the Diginet acquisition, and the acquisition of money transfer branches. Business acquisition activity in fiscal 2006 required $4.9 million, relating to the acquisition of money transfer branches.

Capital expenditures increased to $35.4 million in fiscal 2007 from $25.0 million in fiscal 2006. These expenditures primarily relate to software and infrastructure, including our planned consolidation of our two domestic platforms to a single platform. We completed the relocation of our data center from our former parent s facility to our own facility during fiscal 2006. The capital expenditures for fiscal 2007 also included DolEx branch expansion and Canadian merchant terminal spending. For fiscal 2008, we expect capital expenditures of $40 million to $50 million. This expected growth over fiscal 2007 is primarily due to increased merchant terminal spending in Canada and in the Asia-Pacific region.

In fiscal 2007, $10.9 million, net was provided by financing activities compared to $54.3 million, net used in financing activities in fiscal 2006. The decrease in cash used in financing activities was primarily due to no repayments on our Canadian and domestic credit facilities in fiscal 2007, as we had no borrowings as of May 31, 2007 and 2006.

We believe that our current level of cash and borrowing capacity under our committed lines of credit described below, together with future cash flows from operations, are sufficient to meet the needs of our existing operations and planned requirements for the foreseeable future. As of May 31, 2007, we do not have any material capital commitments, other than commitments under capital and operating leases, and planned expansions see Commitments and Contractual Obligations below for more details.

We regularly evaluate cash requirements for current operations, commitments, development activities and acquisitions, and we may elect to raise additional funds for these purposes in the future, either through the issuance of debt, equity or otherwise. Our current cash flow strategy is to pay off debt, if any, to make planned capital investments in our business, to pursue acquisitions that meet our growth strategies, to pay dividends at the discretion of our Board of Directors, to repurchase our stock at the discretion of our Board of Directors, and to invest excess cash in high-quality, short-term marketable securities.

Credit Facilities

On November 16, 2006, we entered into 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 May 31, 2007. 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 May 31, 2007, we had no borrowings outstanding on our U.S. Credit Facility. As of May 31, 2006, we had no borrowings on our former U.S. credit facility, which we terminated on November 16, 2006 in conjunction with our entry into the U.S. Credit Facility.

On November 16, 2006, we entered into an amendment to our 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 an uncommitted facility which consists of a line of credit of $25 million Canadian dollars, or $23 million United States dollars based on the May 31, 2007 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 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 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 May 31, 2007. As of both May 31, 2007 and May 31, 2006, we had no borrowings outstanding on our Canadian Credit Facility.

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interest, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market, or credit risk support other than the guarantee products described under Critical Accounting Estimates below.

Commitments and Contractual Obligations

The following table summarizes our contractual obligations and commitments as of May 31, 2007:

	Payments Due by Future Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	5+ Years
			(in thousands)		
Operating leases (Note 12)	$ 68,081	$ 20,398	$ 29,474	$ 12,313	$ 5,896

Note: This table excludes other obligations that we may have, such as employee benefit plan obligations, and other current and long term liabilities reflected in our consolidated balance sheets. We do not have any material purchase commitments as of May 31, 2007.

We believe that cash flows from operations and borrowing programs will provide adequate sources of liquidity and capital resources to meet our expected long-term needs for the operation of our business and the satisfaction of these obligations and commitments.

Critical Accounting Estimates

In applying the accounting policies that we use to prepare our consolidated financial statements, we necessarily make accounting estimates that affect our reported amounts of assets, liabilities, revenues and expenses. Some of these accounting estimates require us to make assumptions about matters that are highly uncertain at the time we make the accounting estimates. We base these assumptions and the resulting estimates on historical information and other factors that we believe to be reasonable under the circumstances, and we evaluate these assumptions and estimates on an ongoing basis. In many instances, however, we reasonably could have used different accounting estimates and, in other instances, changes in our accounting estimates could occur from period to period, with the result in each case being a material change in the financial statement presentation of our financial condition or results of operations. We refer to accounting estimates of this type as critical accounting estimates. The critical accounting estimates that we discuss below are those that we believe are most important to an understanding of our consolidated financial statements.

Accounting estimates necessarily require subjective determinations about future events and conditions. Therefore, the following descriptions of critical accounting estimates are forward-looking statements, and actual results could differ materially from the results anticipated by these forward-looking statements. You should read the following in conjunction with Note 1 of the notes to consolidated financial statements and the risk factors contained in Item 1A Risk Factors of this annual report.

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Reserve for operating losses

As a part of our direct merchant credit card and debit card processing services and check guarantee services in the United States and Canada, we experience merchant losses and check guarantee losses, which we collectively refer to as operating losses. Merchant losses occur when we are unable to collect amounts from merchant customers for any charges properly reversed by the cardholder. Check guarantee losses occur when we are unable to collect the full amount of a guaranteed check from the checkwriter. Please refer to the notes to consolidated financial statements for a further explanation of these operating losses.

We process credit card transactions for direct merchants and recognize revenue based on a percentage of the gross amount charged. Our direct merchant customers have the liability for any charges properly reversed by the 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 reason, we may be liable for any such reversed charges. We require cash deposits, guarantees, letters of credit and other types of collateral by certain merchants to minimize any such contingent liability, and we also utilize a number of systems and procedures to manage merchant risk. We have, however, historically experienced losses due to merchant defaults.

We account for our potential liability relating to merchant losses as guarantees. 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 an assumed percentage of our United States and Canadian direct merchant credit card and off-line debit card sales volumes processed, or processed volume. For the years ended May 31, 2007, 2006, and 2005, our processed volume was $100.1 billion, $86.4 billion, and $75.8 billion, respectively. For these same periods, we recorded provisions for merchant losses of $3.1 million, $2.7 million, and $5.3 million, respectively. As a percentage of processed volume, these charges were 0.0031%, 0.0032%, and 0.0070%, respectively, during the above periods. This percentage has trended downward over the above periods, primarily due to processed volume growth, increasingly effective risk management efforts and a higher mix of processed volume from merchants referred to us by our ISOs. In many instances, our ISOs are responsible for absorbing merchant losses that we would have otherwise incurred. For these same years, we experienced actual losses of $3.3 million, $3.3 million, and $5.3 million, respectively. Since actual losses were similar to the merchant loss provisions provided above, we believe that our estimation process has been materially accurate on a historical basis. A 10% increase or decrease in our provision for merchant losses as a percentage of processed volume for the year ended May 31, 2007 would have resulted in a decrease or increase in net income of $0.2 million. Further, if our provision for merchant losses as a percentage of processed volume for our fiscal 2007 had equaled our provision for merchant losses as a percentage of processed volume of 0.0032% for the same prior year period, our net income would have decreased by $0.1 million. As of May 31, 2007 and 2006, $2.8 million and $3.1 million, respectively, has been recorded for guarantees associated with merchant card processing and is included in settlement processing obligations in the accompanying consolidated balance sheets.

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. 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 also comprised of known losses and a projection of future losses based on an assumed percentage of the face value of our guaranteed checks. For the years ended May 31, 2007, 2006, and 2005, we guaranteed total check face values of $2.6 billion, $2.5 billion, and $2.1 billion, respectively. For those same periods, we recorded provisions for check guarantee losses of $18.2 million, $17.9 million, and $13.0 million, respectively. As a percentage of the total guaranteed check face value, these charges were 0.70%, 0.71%, and 0.63%, respectively, during the years mentioned above. For these same years, we experienced actual losses of $18.8 million, $16.1 million, and $13.3 million, respectively. Since actual losses were similar to the check guarantee loss provisions provided above, we believe that our estimation process has been materially accurate on a historical basis. A 10% increase or decrease in our percentage assumption for the year ended

May 31, 2007 would have resulted in a decrease or increase in net income of $1.2 million. Further, if our guarantee loss as a percentage of guarantee volume for our fiscal 2007 had equaled our guarantee loss as a percentage of guarantee volume of 0.71% for the same prior year period, our net income would have decreased by $0.2 million. As of May 31, 2007 and 2006, we had a check guarantee reserve of $5.1 million and $5.8 million, respectively, which is included in claims receivable, net, in the accompanying consolidated balance sheets.

We derive our projected loss rate assumptions primarily based on a rolling twelve-month analysis of historic loss activity. These assumptions, however, bear the risk of change, which may occur as a result of several qualitative factors. For merchant losses, these factors include: a change in the creditworthiness of our merchant customers; a change in the levels of credit card fraud affecting our merchant customers; and a change in the effectiveness of our internal credit, risk management, and collection departments. For check guarantee losses, these factors include a change in the levels of dishonored consumer checks presented to our guarantee service merchant customers and a change in the effectiveness of our internal check guarantee procedures, customer acceptance and retention policies, or collection protocols. Application of our percentage assumptions involve uncertainty regarding changes in any of the factors above, especially those that are outside of our control, such as the financial health of the United States and Canadian economies at a regional or national level and the related impact on our customers. Our loss rate assumptions have not changed materially for the years ended May 31, 2007, 2006, and 2005, and we expect that they will either remain constant or modestly fluctuate in the future, depending on changes in the above factors.

Goodwill and long-lived asset valuations

We regularly evaluate whether events and circumstances have occurred that indicate the carrying amounts of goodwill, property and equipment, and other intangible assets may warrant revision or may not be recoverable. Goodwill and other indefinite-life intangible assets are evaluated for impairment annually by applying a fair value based test. Property and equipment and finite-lived intangible assets are evaluated for impairment when facts and circumstances indicate the carrying value of such assets may exceed their fair values. When factors indicate that these assets should be evaluated for possible impairment, we assess the potential impairment of their carrying values 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.

We completed our most recent annual goodwill and indefinite-life intangible asset impairment test as of January 1, 2007 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, non-compete agreements, and trademarks associated with acquisitions. Customer-related intangible assets, non-compete agreements, 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 revenues, expenses, and customer attrition associated with the assets. The useful lives of non-compete agreements 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.

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 adopt this method for 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 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 will also continue to use the straight-line method of amortization for our non-compete agreements and amortizable trademarks.

The other assets in the accompanying consolidated balance sheets include software rights purchased in September 2001 for $5 million. These rights would allow us to perform certain processing and software support activities that are currently performed on our behalf by a third party. We expect this software code to be the foundation for a project planned to perform these services internally. This plan is still in the initial feasibility and design phase as of May 31, 2007. If, in the future, we were to decide to abandon our plans to perform these activities ourselves, the value of this asset may be substantially impaired. While we believe that the rights may have a resale value, the maximum potential impairment could equal the carrying value. In our opinion, the carrying values of long-lived assets, including goodwill, property and equipment, and other intangible assets, are not impaired at May 31, 2007 and May 31, 2006.

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ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

Although the majority of our operations are conducted in U.S. dollars, some of our operations are conducted in Euros and the various currencies of the Asia-Pacific region, Canada, Central and Eastern Europe, and Latin America. Consequently, a portion of our revenues and expenses may be affected by fluctuations in foreign currency exchange rates. We are also affected by fluctuations in exchange rates on assets and liabilities related to our foreign operations. We have not hedged our translation risk on foreign currency exposure. For the twelve months ended May 31, 2007, foreign currency exposures increased our revenues by $13.3 million over the comparable period in the prior year. For the twelve months ended May 31, 2007, foreign currency exposures increased our net income by $3.6 million over the comparable period in the prior year, calculated by applying our consolidated effective income tax rate before minority interest for the appropriate period. A 10% change in average foreign currency rates against the U.S. dollar during the twelve months ended May 31, 2007 would have increased or decreased our revenues and net income by $33.3 million and $9.3 million, respectively.

Interest Rate Risk

We have a credit facility with Canadian Imperial Bank of Commerce for up to $25 million Canadian dollars to cover the pre-funding of Canadian merchants. The Canadian Credit Facility has a variable interest rate based on the Canadian dollar London Interbank Offered Rate plus a margin. Our $350 million U.S. revolving line of credit has a variable interest rate based on a market short-term floating rate plus a margin that varies according to our leverage position. Accordingly, we are exposed to the impact of interest rate fluctuations. As of May 31, 2007 we had no borrowings outstanding on our facilities.

A 10% proportionate increase in interest rates would not have had a material adverse impact on our current or future consolidated net income or cash flows.

Derivative Financial Instruments

Historically, we have not entered into derivative financial instruments to mitigate interest rate fluctuation risk or foreign currency exchange rate risk, as it has not been cost effective. We may use derivative financial instruments in the future if we deem it useful in mitigating our exposure to interest rate or foreign currency exchange rate fluctuations.

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Global Payments Inc.:

We have audited the accompanying consolidated balance sheets of Global Payments Inc. and subsidiaries (the Company) as of May 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the three years in the period ended May 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Global Payments Inc. and subsidiaries as of May 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as whole, presents fairly, in all material respects, the information set forth therein.

As described in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-based Payment*, on June 1, 2006, based on the modified prospective application transition method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of May 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 30, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia

July 30, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Global Payments Inc.:

We have audited management s assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Global Payments Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of May 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in the Management Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting of the business alliance with The Hongkong and Shanghai Banking Corporation Limited, or HSBC, which was acquired on July 24, 2006, and whose financial statements constitute less than 5% percent of revenues and operating income of the consolidated financial statement amounts for the year ended May 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at HSBC. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of May 31, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control

over financial reporting as of May 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended May 31, 2007 of the Company and our report dated July 30, 2007 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-based Payment* on June 1, 2006.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia

July 30, 2007

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GLOBAL PAYMENTS INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Year Ended May 31, 2007	2006	2005
Revenues	$ 1,061,523	$ 908,056	$ 784,331
Operating expenses:			
Cost of service	414,837	358,020	337,272
Sales, general and administrative	425,509	347,070	283,232
Restructuring and other	3,088	1,878	3,726
	843,434	706,968	624,230
Operating income	218,089	201,088	160,101
Other income (expense):			
Interest and other income	16,706	7,576	2,194
Interest and other expense	(8,464)	(7,144)	(8,378)
	8,242	432	(6,184)
Income before income taxes and minority interest	226,331	201,520	153,917
Provision for income taxes	(73,436)	(67,522)	(53,351)
Minority interest, net of tax	(9,910)	(8,474)	(7,670)
Net income	$ 142,985	$ 125,524	$ 92,896
Basic earnings per share	$ 1.78	$ 1.59	$ 1.20
Diluted earnings per share	$ 1.75	$ 1.53	$ 1.16

See Notes to Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	May 31, 2007	May 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 308,872	$ 218,475
Accounts receivable, net of allowances for doubtful accounts of $451 and $620, respectively	76,168	67,476
Claims receivable, net of allowances for losses of $5,139 and $5,776, respectively	2,187	903
Settlement processing assets	32,853	39,671
Inventory, net of obsolescence reserves of $639 and $530, respectively	3,435	3,300
Income tax receivable	1,457	
Deferred income taxes	5,216	3,622
Prepaid expenses and other current assets	14,241	14,959
Total current assets	444,429	348,406
Property and equipment	118,495	107,977
Goodwill	451,244	387,280
Other intangible assets	175,620	167,182
Other	10,841	7,833
Total assets	$ 1,200,629	$ 1,018,678
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Payables to money transfer beneficiaries	$ 6,589	$ 6,361
Accounts payable and accrued liabilities	115,671	99,383
Settlement processing obligations	20,617	37,942
Income taxes payable		5,223
Obligations under capital leases		746
Total current liabilities	142,877	149,655
Deferred income taxes	70,768	68,791
Other long-term liabilities	14,275	17,013
Total liabilities	227,920	235,459
Commitments and contingencies (See Note 12)		
Minority interest in equity of subsidiaries	14,933	12,996
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; 80,877,651 and 79,813,851 shares issued and outstanding at May 31, 2007 and May 31, 2006, respectively		
Paid-in capital	430,166	389,366
Retained earnings	466,417	329,874
Deferred compensation		(1,853)

Accumulated other comprehensive income	61,193	52,836
Total shareholders equity	957,776	770,223
Total liabilities and shareholders equity	$ 1,200,629	$ 1,018,678

See Notes to Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended May 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:			
Net income	$ 142,985	$ 125,524	$ 92,896
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	25,929	25,634	30,287
Provision for operating losses and bad debts	21,477	21,280	18,641
Share-based compensation expense	15,154	2,847	3,537
Amortization of acquired intangibles	14,436	14,855	15,019
Minority interest in earnings	9,214	8,474	7,739
Restructuring and other charges, non-cash	1,145		2,730
Deferred income taxes	(2,211)	777	9,002
Other, net	1,807	4,521	2,419
Changes in operating assets and liabilities, net of the effects of acquisitions:			
Accounts receivable	(8,579)	(12,815)	(7,494)
Claims receivable	(19,444)	(17,861)	(13,204)
Settlement processing assets and obligations, net	(13,937)	31,198	58,550
Inventory	(167)	(520)	209
Prepaid expenses and other assets	(2,428)	(415)	(4,157)
Accounts payable and accrued liabilities	11,505	11,039	3,241
Payables to money transfer beneficiaries	228	667	1,988