

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the transition period from June 1, 2016 to December 31, 2016

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  
**Common Stock, No Par Value**

Name of each exchange  
on which registered  
**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  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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$10,361,276,769.

The number of shares of the registrant's common stock outstanding at February 22, 2017 was 152,230,376 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Specifically identified portions of the registrant's proxy statement for the 2017 annual meeting of shareholders are incorporated by reference in Part III.

**GLOBAL PAYMENTS INC.  
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## EXPLANATORY NOTE REGARDING THE TRANSITION PERIOD

We have changed our fiscal year-end from May 31 to December 31, effective December 31, 2016. As a result, the period consisting of the seven-months ended December 31, 2016 is considered the "2016 fiscal transition period."

When our financial results for the 2016 fiscal transition period are compared to our financial results for the same period in 2015, the results compare the seven-month period from June 1, 2016 through December 31, 2016 to the seven-month period from June 1, 2015 through December 31, 2015. The results for the seven months ended December 31, 2015 are unaudited.

## CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

We believe that it is important to communicate our plans for and expectations about the future to our shareholders and to the public. Some of the statements we use in this report, and in some of the documents we incorporate by reference in this report, contain forward-looking statements concerning our business operations, economic performance and financial condition, including in particular: our business strategy and means to implement the strategy; measures of future results of operations, such as revenues, expenses, operating margins, income tax rates, and earnings per share; other operating metrics such as shares outstanding and capital expenditures; our success and timing in developing and introducing new services and expanding our business; statements about the benefits of our merger with Heartland Payment Systems, Inc., or Heartland, including future financial and operating results, the combined company's plans, objectives, expectations and intentions, 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. For these 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, estimates, projections or plans that are inherently subject to significant risks, uncertainties and contingencies, 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. Important factors that may cause actual events or results to differ materially from those anticipated by our forward-looking statements include our ability to safeguard our data; increased competition from larger companies and non-traditional competitors; our ability to update our services in a timely manner; our ability to maintain Visa and MasterCard registration and financial institution sponsorship; our reliance on financial institutions to provide clearing services in connection with our settlement activities; our potential failure to comply with card network requirements; potential systems interruptions or failures; software defects or undetected errors; increased attrition of merchants, referral partners or independent sales organizations; our ability to increase our share of existing markets and expand into new markets; a decline in the use of cards for payment generally; unanticipated increases in chargeback liability; increases in credit card network fees; changes in laws, regulations or network rules or interpretations thereof; foreign currency exchange and interest rate risks; political, economic and regulatory changes in the foreign countries in which we operate; future performance, integration and conversion of acquired operations, including without limitation difficulties and delays in integrating the Heartland Payment Systems, Inc. business or fully realizing cost savings and other benefits of the acquisition at all or within the expected time period; fully realizing anticipated annual interest expense savings from refinancing our corporate credit facility; loss of key personnel; and other risk factors presented in Item "1A - Risk Factors of this Transition Report on Form 10-K," which we advise you to review. 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.

## PART I

### ITEM 1- BUSINESS

#### Introduction

We are a leading worldwide provider of payment technology services delivering innovative solutions to our customers globally. Our technologies, partnerships and employee expertise enable us to provide a broad range of services that allow our customers to accept various payment types. We distribute our services across a variety of channels to merchants and partners in 30 countries throughout North America, Europe, the Asia-Pacific region and Brazil and operate in three reportable segments: North America, Europe and Asia-Pacific.

We were incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from our former parent company in 2001. Including our time as part of our former parent company, we have been in the payment technology services business since 1967. Since our spin-off, we have grown our annual revenues from \$353 million for the year ended May 31, 2001 to \$2.9 billion for the year ended May 31, 2016, through internal expansion of existing operations and through acquisitions. We recently completed our largest business combination to date when we merged with Heartland Payment Systems, Inc. ("Heartland") in April 2016.

Headquartered in Atlanta, Georgia, we are a member of the Standard & Poor's 500 Index, and our common stock is traded on the New York Stock Exchange under the symbol "GPN."

#### Merger with Heartland

On April 22, 2016, following the approval of Heartland's stockholders, we completed our merger with Heartland in a transaction valued at \$4.4 billion, including assumed debt of \$0.4 billion. As a result, Heartland became a wholly owned subsidiary of Global Payments Inc. Prior to the merger, Heartland was one of the largest payment services companies in the United States, delivering payment technology services and offering integrated commerce, omnichannel, vertically-oriented software, cloud-based point-of-sale ("POS"), analytics, marketing, payroll and other solutions that are highly complementary to the services offered by Global Payments. The merger significantly expanded our small and medium-sized enterprise distribution, merchant base and vertical reach in the United States, adding a 1,400-person direct sales force, over 300,000 merchants and \$130 billion in annual payments volume. We are leveraging our scalable, worldwide infrastructure to drive revenue enhancements and technological and operational synergies from the merger. See "Note 2 - Acquisitions" in the notes to the accompanying consolidated financial statements for further discussion of our merger with Heartland.

Our consolidated statements of income, comprehensive income, cash flows and changes in equity presented in the accompanying consolidated financial statements include the results of Heartland from the acquisition date, including the effects of merger-related costs to effect that transaction and its integration.

On February 26, 2016, we amended our existing corporate credit facility to provide for secured financing of up to \$4.78 billion, the incremental proceeds of which were used, among other things, to repay certain portions of Heartland's existing indebtedness and to finance, in part, the cash consideration and the merger-related costs. On October 31, 2016, we further amended our existing corporate credit facility to increase our borrowing capacity and to provide for secured financing of up to \$5.03 billion. See "Liquidity and Capital Resources-Long-Term Debt and Lines of Credit" below for further discussion of our credit facilities.

#### Merchant Services Overview

Our payment solutions are similar around the world in that we enable our merchant customers to accept card, electronic, check and digital-based payments at the point of sale. Our comprehensive offerings include, but are not limited to, authorization services, settlement and funding services, customer support and help-desk functions, chargeback resolution, terminal rental, sales and deployment, payment security services, consolidated billing and statements and on-line reporting. Our value proposition is to provide high-quality, responsive, secure, end-to-end service to all of our customers. We distribute our services through multiple channels and target customers in many vertical industries in 30 countries located throughout North America, Europe, the Asia-Pacific region and in Brazil. The majority of merchant services revenues is generated by services priced as a percentage of transaction value or a specified fee per transaction, depending on the card type or the vertical. We also earn other fees based on specific services that may be unrelated to the number or value of transactions.

**Direct Distribution**

Our primary business model is to actively market and provide payment services directly to merchants through a variety of distribution channels. We offer high touch services that provide our merchants with reliable and secure payment solutions coupled with high quality and responsive support services. Through our direct sales force worldwide, as well as bank partnerships, referral partners and our agent network, we offer rapid merchant boarding, high availability and secure payment acceptance and payment services, risk, fraud and chargeback management, reporting and analytics services, support services and other ancillary services. See “Business Segments” below for a description of our direct sales forces located around the world.

Many of our payment solutions are technology-enabled in that they incorporate or are incorporated into innovative, technology-driven solutions designed to enable merchants to better manage their businesses. Our primary technology-enabled solutions include integrated payment solutions, ecommerce and omnichannel and gaming solutions, each as described below.

*Integrated Payment Solutions.* Our integrated payment solutions provide advanced payments technology that is deeply integrated into business enterprise software solutions either owned by us or by our partners. We grow our business when new merchants implement our enterprise software solutions and when new or existing merchants enable payments services through enterprise software solutions sold by us or by our partners. We distribute our integrated payment solutions primarily through the following businesses:

- *OpenEdge.* Through OpenEdge, we offer integrated payment solutions through more than 2,000 technology partners across over 60 different verticals primarily in North America. OpenEdge enables third-party application developers to incorporate payment innovations into their enterprise business solutions.
- *Ezidebit.* Through Ezidebit, we offer integrated payment solutions in the Asia-Pacific region. Ezidebit focuses on recurring payments verticals and, similar to OpenEdge, markets its services through a network of integrated software vendors and direct channels to numerous vertical markets.
- *Education Solutions.* In North America, we offer integrated payment solutions specifically designed for all levels of educational institutions. At the university level, we offer integrated commerce solutions, payment services, higher education loan services and open- and closed-loop payment solutions. For kindergarten through 12<sup>th</sup> grade, we provide ecommerce and in-person payments, cafeteria POS solutions and back-office management software, hardware, technical support and training.
- *Point-of-Sale Solutions.* We offer leading-edge POS software solutions, integrated with our payment services and other adjacent business service applications, which may be on-premise or cloud-based, targeted primarily at the hospitality and retail verticals.

*Ecommerce and Omnichannel.* We offer ecommerce and omnichannel solutions to our customers that seamlessly blend payment gateway services, retail payment acceptance infrastructure and merchant acquiring capabilities to allow merchants to accept various payment methods through any channel across our geographical footprint. We sell ecommerce and omnichannel solutions to customers of all sizes, from small businesses accepting payments through a website in a single country, to enterprise and multinational businesses that have complex payment needs and operate retail and online businesses in multiple countries.

*Gaming.* We offer a comprehensive suite of cash access solutions to the gaming market in North America. These solutions include credit and debit card cash advance, traditional and electronic check processing and other services specific to this market. Our services allow casino patrons in North America fast access to cash with high limits so that gaming establishments can increase the flow of money to their gaming floors and reduce risk.

**Wholesale Distribution**

Although our primary business model is to build high quality direct relationships with merchants, we also provide our services through a wholesale distribution channel where we do not maintain the face-to-face relationship with the merchant.

Through our wholesale channel, we provide payment services to merchants through independent sales organizations (“ISOs”). The ISOs act as third-party sales groups selling our payment technology services directly to end user merchant customers. We also provide merchant services (but not funds settlement services) to merchants indirectly through financial institutions and a limited number of ISOs, whereby the financial institution or the ISO is our customer.

## **Credit and Debit Card Transaction Processing**

Credit and debit card transaction processing includes the processing of the world's major international card brands, including American Express, Discover Card ("Discover"), JCB, MasterCard, UnionPay International ("UPI"), Visa and non-traditional payment methods, as well as certain domestic debit networks, such as Interac in Canada. Credit and debit networks establish uniform regulations that govern much of the payment card industry. During a typical payment transaction, the merchant and the card issuer do not interface directly with each other, but instead rely on payments technology companies, such as Global Payments, to facilitate transaction processing services, including authorization, electronic draft capture, file transfers to facilitate funds settlement and certain exception-based, back office support services such as chargeback and retrieval resolution.

We process funds settlement under two models, a sponsorship model and a direct membership model. Under the sponsorship model, we are designated as a Merchant Service Provider by MasterCard and as an ISO by Visa. To be designated as a certified processor, member clearing financial institutions ("Member") sponsor us and require our adherence to the standards of the networks. In certain markets, we have sponsorship or depository and clearing agreements with financial institution sponsors. These agreements allow us to route transactions under the Members' control and identification numbers to clear card transactions through MasterCard and Visa. In this model, the standards of the card networks restrict us from performing funds settlement or accessing merchant settlement funds, and, instead, require that these funds be in the possession of the Member until the merchant has been funded.

Under the direct membership model, we are direct members in various payment networks, allowing us to process and fund transactions without third-party sponsorship. In this model, we route and clear transactions directly through the card brand's network and are not restricted from performing funds settlement. Otherwise, we process these transactions similarly to how we process transactions in the sponsorship model. We are required to adhere to the standards of the various networks in which we are direct members. We maintain relationships with financial institutions, which may also serve as our Member sponsors for other card brands or in other markets, to assist with funds settlement.

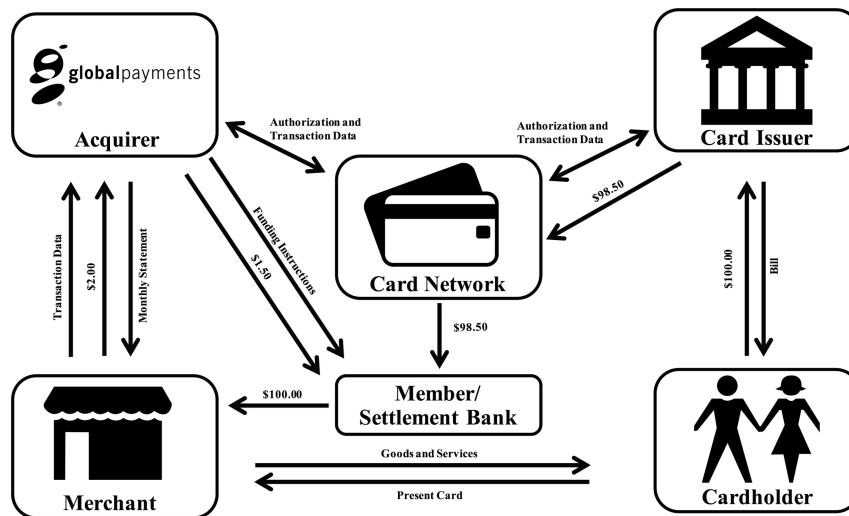
## **How a Card Transaction Works**

A typical payment transaction begins when a cardholder presents a card for payment at a merchant location where the card information is captured by a POS terminal card reader or mobile device card reader, which may be sold or leased to the merchant, and serviced by us. Alternatively, card and transaction information may be captured and transmitted to our network through a POS device by one of a number of services that we offer directly or through a value-added reseller ("VAR"). The card reader electronically records sales draft information, such as the card identification number, transaction date and transaction amount.

After the card and transaction information is captured, the POS device automatically connects to our network through the internet or other communication channel in order to receive authorization of the transaction. For a credit card transaction, authorization services generally refer to the process in which the card issuer indicates whether a particular credit card is authentic and whether the impending transaction amount will cause the cardholder to exceed defined credit limits. In a debit card transaction, we obtain authorization for the transaction from the card issuer through the payment network verifying that the cardholder has sufficient funds for the transaction amount.

As an illustration, shown below, on a \$100.00 card transaction, the card issuer may fund the Member, our sponsor, (indirectly through the card network) \$98.50 after retaining approximately \$1.50 referred to as an interchange fee. 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 the Member \$1.50. After the end of the month, we would bill the merchant a percentage of the transaction amount, or discount, to cover the full amount of the interchange fee and our fee from the transaction. If our discount rate for the merchant in the above example was 2.00%, we would bill the merchant \$2.00 after the end of the month for the transaction, reimburse ourselves for \$1.50 in interchange fees and retain \$0.50 as our fees for the transaction. Discount rates vary based on negotiations with merchants and the economic characteristics of transactions. Interchange rates also vary based on the economic characteristics of individual transactions. Accordingly, our fee per transaction varies across our merchant base and is subject to change based on changes in discount rates and interchange rates. Our profit on the transaction reflects the fee received less operating expenses, including assessments and other network fees, systems cost to process the transaction and commissions paid to our sales force or ISO. Assessments are fees charged by the card brands based on the value of transactions processed through their networks.

## Illustrative Card Transaction Flow



### Business Segments

We operate in three reportable segments: North America, Europe and Asia-Pacific. See "Note 15 - Segment Information" in the notes to the accompanying consolidated financial statements for additional information about our segments, including revenues, operating income and depreciation and amortization by segment as well as financial information about geographic areas in which we operate. Our foreign operations subject us to various risks, including, without limitation, currency exchange risks and political, economic and regulatory risks. See "Item 1A - Risk Factors" for additional information about these risks.

#### North America

Approximately 74.9% of our revenues for the 2016 fiscal transition period were derived from our operations in North America, which include the United States and Canada.

Our primary mode of distribution in North America is our direct distribution channels, including our direct sales force. With the addition of the Heartland sales professionals, we have an extensive direct sales force in North America selling our services across numerous different vertical markets, including restaurant, hospitality, retail, convenience stores and petroleum, professional services, automotive and lodging.

In addition, our technology-enabled solutions represented a substantial component of our revenues in North America for the 2016 fiscal transition period. Our technology-enabled distribution in North America primarily includes integrated payment solutions, as well as our gaming solutions business.

We also generate a portion of our revenues in North America from our wholesale distribution channel, primarily ISOs acting as third-party selling groups.

#### Europe

Approximately 18.3% of our revenues for the 2016 fiscal transition period were derived from our operations in Europe, which includes the United Kingdom, the Republic of Ireland, Spain, the Republic of Malta, the Czech Republic, Hungary, Slovakia, Romania and the Russian Federation. We have direct sales forces in these markets through which we primarily sell our services while also leveraging our bank referral relationships.

Our ecommerce and omnichannel solutions represent a growing percentage of the services we sell in Europe, fueled in part by our acquisition of Realex in March 2015. In addition, in June 2016, we completed our joint venture with Erste Group Bank AG, a leading financial services provider in Central and Eastern Europe, which expanded our services into Romania and provided deeper penetration into the Czech Republic and Slovakia.

### *Asia-Pacific*

Approximately 6.8% of our revenues for the 2016 fiscal transition period were derived from our operations in the Asia-Pacific region, which includes the following countries and territories: Australia, Brunei, China, Hong Kong, India, Macau, Malaysia, Maldives, New Zealand, the Philippines, Singapore, Sri Lanka and Taiwan. Our direct sales force in the Asia-Pacific region accounts for substantially all of the services we sell in the region.

Primarily as a result of our acquisition of Ezidebit in October 2014, technology-enabled solutions represent a substantial and growing portion of our operations in the Asia-Pacific region. Our acquisition of eWay Limited in April 2016 has allowed us to further expand our ecommerce and omnichannel solutions offerings in this region.

### **Industry Overview**

The payment technology services industry provides merchants with credit, debit, gift and loyalty card and other payment processing services, along with related information services. The industry continues to grow as a result of wider merchant acceptance, increased consumer use of credit and debit cards and advances in payment processing and telecommunications technology. The proliferation of credit and debit cards has made the acceptance of card-based payments a virtual necessity for many businesses, regardless of size, in order to remain competitive. This increased use of cards and the availability of more sophisticated technology services to all market segments has resulted in a highly competitive and specialized industry.

#### *Competition*

We are a leading provider of payments technology services in North America, where we compete primarily with Bank of America Merchant Services, LLC (a joint venture between First Data Corporation and Bank of America Corporation), Chase Paymentech Solutions, LLC, Elavon, Inc., a subsidiary of U.S. Bancorp, First Data Corporation, Total System Services, Inc., Vantiv Inc. and Wells Fargo Bank, N.A. While these are our primary competitors, some of our vertically focused business in the United States compete with other organizations.

In Europe and the Asia-Pacific region, financial institutions remain the primary providers of payment services to merchants, although the outsourcing of these services to third-party service providers is becoming more prevalent. Payment services have become increasingly complex, requiring significant capital commitments to develop, maintain and update the systems necessary to provide these advanced services at competitive prices.

Competitors in Europe include Barclays Bank PLC, Spanish banking institutions and WorldPay (UK) Limited. Financial institutions that offer merchant acquiring services are our primary competitors in Asia-Pacific.

#### *Emerging Trends*

The payments industry continues to grow worldwide and as a result, certain large payment technology companies, including us, have expanded operations globally by pursuing acquisitions and creating alliances and joint ventures. We expect to continue to expand into new markets internationally or increase our scale and improve our competitiveness in existing markets by pursuing further acquisitions and joint ventures.

We believe that electronic payment transactions will continue to grow and that an increasing percentage of these will be facilitated through emerging technologies. As a result, we expect an increasing portion of our future capital investment will be allocated to support the development of new and emerging technologies; however, we do not expect our aggregate capital spending to increase materially from our current level of spending as a result of this.

We also believe new markets will continue to develop in areas that have been previously dominated by paper-based transactions. We expect industries such as education, government and healthcare, as well as recurring payments and business-to-business payments, to continue to see transactions migrate to electronic-based solutions. We anticipate that the continued development of new services and the emergence of new vertical markets will be a factor in the growth of our business and our revenue in the future.



## Strategy

We seek to leverage the adoption of, and transition to, card, electronic and digital-based payments by expanding share in our existing markets through our distribution channels and service innovation, as well as through acquisitions to improve our offerings and scale, while also seeking to enter new markets through acquisitions, alliances and joint ventures around the world. We intend to continue to invest in and leverage our technology infrastructure and our people to increase our penetration in existing markets.

Our key objectives include the following:

- Grow and control our direct distribution by adding new channels and partners;
- Deliver innovative services by developing value-added applications, enhancing existing services and developing new systems and services to blend technology with customer needs;
- Leverage technology and operational advantages throughout our global footprint;
- Continue to develop seamless multinational solutions for leading global customers;
- Provide customer service at levels that exceed our competition, while investing in technology, training and enhancements to our service offerings; and
- Pursue potential domestic and international acquisitions of, investments in and alliances with companies that have high growth potential, significant market presence, sustainable distribution platforms and/or key technological capabilities.

## Competitive Strengths

We believe that our competitive strengths include the following:

- *Global Footprint and Distribution* - Our worldwide presence allows us to focus our investments on markets with promising GDP fundamentals and favorable secular trends, makes us more attractive to merchants with international operations and exposes us to emerging innovations that we can adopt globally, while diversifying our economic risk.
- *Technology Solutions* - We provide innovative technology-based solutions that enable our customers to operate their business more efficiently and simplify the payments process, regardless of the channel through which the transaction occurs. We believe our robust technology solutions will continue to differentiate us in the marketplace and will position us for continued growth.
- *Scalable Operating Environment and Technology Infrastructure* - We operate as a single, unified international organization, with a multi-channel, global technology infrastructure, which provides scalable and innovative service offerings and a consistent service experience to our merchants and partners worldwide, while also driving sustainable operating efficiencies.
- *Strong, Long-lasting Partner Relationships* - We have established strong, long-lasting relationships with many financial institutions, enterprise software providers, VARs and other technology-based payment service providers, which facilitate lead generation and enable us to deliver a diverse solutions set to our merchant customers.
- *Disciplined Acquisition Approach* - Our proven track record for selectively and successfully sourcing, completing and integrating acquired businesses in existing and new markets positions us well for future growth and as an attractive partner for potential acquisition targets.

## Safeguarding Our Business

Privacy and security are central to our services. We work with information security and forensics firms and employ advanced technologies to prevent, investigate and address issues relating to processing system security and availability. We also collaborate with industry third parties, regulators and law enforcement to resolve security incidents and assist in efforts to prevent unauthorized access to our processing systems.

## **Employees and Labor**

As of December 31, 2016, we had approximately 8,760 employees, many of whom are highly skilled in technical areas specific to payment technology services.

## **Regulation**

Various aspects of our business are subject to regulation and supervision under federal, state and local laws in the United States, as well as foreign laws, regulations and rules. In addition, we are subject to rules promulgated by the various payment networks, including American Express, Discover, Interac, MasterCard, UPI and Visa; Directive 2007/64/EC in the European Union (the "Payment Services Directive"); as well as a variety of other regulations, including escheat laws and applicable privacy and information security regulations. In addition, because we provide data processing services to banks and other financial institutions, we are subject to examination by the Federal Financial Institutions Examination Council (the "FFIEC"). Set forth below is a brief summary of some of the significant laws and regulations that apply to us. These descriptions are not exhaustive, and these laws, regulations and rules frequently change.

### *Dodd-Frank Act*

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which was signed into law in the United States in 2010, resulted in significant structural and other changes to the regulation of the financial services industry. The Dodd-Frank Act directed the Board of Governors of the Federal Reserve (the "Federal Reserve Board") to regulate the debit interchange transaction fees that a card issuer or payment card network receives or charges for an electronic debit transaction. Pursuant to the so-called "Durbin Amendment" to the Dodd-Frank Act, these fees must be "reasonable and proportional" to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. Pursuant to regulations promulgated by the Federal Reserve Board, debit interchange rates for card issuers with assets of \$10 billion or more are capped at \$0.21 per transaction and an ad valorem component of 5 basis points to reflect a portion of the issuer's fraud losses plus, for qualifying issuers, an additional \$0.01 per transaction in debit interchange for fraud prevention costs. The cap on interchange fees has not had a material direct effect on our results of operations.

In addition, the Dodd-Frank Act limits the ability of payment card networks to impose certain restrictions because it allows merchants to: (i) set minimum dollar amounts (not to exceed \$10) for the acceptance of a credit card (and allows federal governmental entities and institutions of higher education to set maximum amounts for the acceptance of credit cards) and (ii) provide discounts or incentives to encourage consumers to pay with cash, checks, debit cards or credit cards.

The rules also contain prohibitions on network exclusivity and merchant routing restrictions that require a card issuer to enable at least two unaffiliated networks on each debit card, prohibit card networks from entering into exclusivity arrangements and restrict the ability of issuers or networks to mandate transaction routing requirements. The prohibition on network exclusivity has not significantly affected our ability to pass on network fees and other costs to our customers, nor do we expect it to in the future.

The Dodd-Frank Act also created the Financial Stability Oversight Council (the "FSOC"), which was established to, among other things, identify risks to the stability of the U.S. financial system. The FSOC has the authority to require supervision and regulation of nonbank financial companies that the FSOC determines pose a systemic risk to the U.S. financial system. Accordingly, we may be subject to additional systemic risk-related oversight.

### *Payment Network Rules*

We are subject to the rules of American Express, Discover, Interac MasterCard, UPI and Visa and other payment networks. In order to provide our services, several of our subsidiaries are either registered as service providers for member institutions with MasterCard, Visa and other networks or are direct members of MasterCard, Visa and other networks. Accordingly, we are subject to card association and network rules that could subject us to a variety of fines or penalties that may be levied by the card networks for certain acts or omissions.

### *Banking Laws and Regulations*

The FFIEC is an interagency body comprised of federal bank and credit union regulators such as the Federal Reserve Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency and the Bureau of Consumer Financial Protection. The FFIEC examines large data processors in order to identify

and mitigate risks associated with systemically significant service providers, including specifically the risks they may pose to the banking industry. In addition, we are subject to the "Payment Services Directive, which was implemented in most European Union member states through national legislation. As a result of this legislation, we are subject to regulation and oversight in certain European Union member nations, including the requirement that we maintain specified regulatory capital; however, these regulatory capital requirements are generally insignificant to our total assets and total equity and have no material effect on our liquidity.

*Privacy and Information Security Laws*

We provide services that may be subject to various state, federal and foreign privacy laws and regulations. These laws and regulations include the federal Gramm-Leach-Bliley Act of 1999, which applies to a broad range of financial institutions and to companies that provide services to financial institutions in the United States, including our gaming business. We are also subject to a variety of foreign data protection and privacy laws, including, without limitation, Directive 95/46/EC, as implemented in each member state of the European Union. Among other things, these foreign and domestic laws, and their implementing regulations, in certain cases restrict the collection, processing, storage, use and disclosure of personal information, require notice to individuals of privacy practices, and provide individuals with certain rights to prevent use and disclosure of protected information. These laws also impose requirements for safeguarding and removal or elimination of personal information.

*Anti-Money Laundering and Counter Terrorist Requirements*

In many countries, we are legally or contractually required to comply with anti-money laundering laws and regulations, such as, in the United States, the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (collectively, the "BSA"), and the BSA implementing regulations of the Financial Crimes Enforcement Network ("FinCEN"), a bureau of the U.S. Department of the Treasury. A variety of similar anti-money laundering requirements apply in other countries. In some countries, we are directly subject to these requirements; in other countries, we have contractually agreed to assist our sponsor banks with their obligation to comply with anti-money laundering requirements that apply to them. These laws typically require organizations to:

- establish and audit anti-money laundering programs;
- establish procedures for obtaining and verifying customer information;
- file reports on large cash transactions; and
- file suspicious activity reports if the financial institution believes a customer may be violating U.S. laws and regulations.

Regulations issued by the Office of Foreign Assets Control ("OFAC") of the U.S. Department of Treasury place prohibitions and restrictions on all U.S. citizens and entities, including the Company, with respect to transactions by U.S. persons with specified countries and individuals and entities identified on OFAC's Specially Designated Nationals list (for example, individuals and companies owned or controlled by, or acting for or on behalf of, countries subject to certain economic and trade sanctions, as well as terrorists, terrorist organizations and narcotics traffickers identified by OFAC under programs that are not country specific). Similar requirements apply to transactions and dealings with persons and entities specified in lists maintained in other countries. We have developed procedures and controls that are designed to monitor and address legal and regulatory requirements and developments and that allow our customers to protect against having direct business dealings with such prohibited countries, individuals or entities.

*Escheat Laws*

We are subject to unclaimed or abandoned property state laws in the United States and in certain foreign countries that require us to transfer to certain government authorities the unclaimed property of others that we hold when that property has been unclaimed for a certain period of time. Moreover, we are subject to audit by state and foreign regulatory authorities with regard to our escheatment practices.

*Foreign Laws and Regulations*

We are subject to foreign laws and regulations that affect the electronic payments industry in each of the foreign countries in which we operate. Some of these countries, such as the Russian Federation and the United Kingdom, have undergone significant political, economic and social change in recent years. In these countries, there is a greater risk of new, unforeseen changes that

could result from, among other things, instability or changes in a country's or region's economic conditions; changes in laws or regulations or in the interpretation of existing laws or regulations, whether caused by a change in government or otherwise; increased difficulty of conducting business in a country or region due to actual or potential political or military conflict; or action by the European Union or the United States, Canada or other governments that may restrict our ability to transact business in a foreign country or with certain foreign individuals or entities, such as sanctions by or against the Russian Federation.

*Debt Collection and Credit Reporting Laws*

Portions of our business may be subject to the Fair Debt Collection Practices Act, the Fair Credit Reporting Act and similar state laws. These debt collection laws are designed to eliminate abusive, deceptive and unfair debt collection practices and may require licensing at the state level. The Fair Credit Reporting Act regulates the use and reporting of consumer credit information and also imposes disclosure requirements on entities that take adverse action based on information obtained from credit reporting agencies. We have procedures in place to comply with the requirements of these laws.

**Where to Find More Information**

We file annual and quarterly reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the "SEC"). You may read and print materials that we have filed with the SEC from its website at [www.sec.gov](http://www.sec.gov). In addition, certain of our SEC filings, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to them can be viewed and printed from the investor relations section of our website at [www.globalpaymentsinc.com](http://www.globalpaymentsinc.com) free of charge. Certain materials relating to our corporate governance, including our codes of ethics applicable to our directors, senior financial officers and other employees, are also available in the investor relations 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 Transition Report on Form 10-K. You may also telephone our investor relations office directly at (770) 829-8478. We are not including the information on our website as a part of, or incorporating it by reference into, this Transition Report on Form 10-K.

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.

SEC Public Reference Room  
100 F Street, N.E.  
Washington, DC 20549  
(You may call the SEC at 1-800-SEC-0330 for further information on the public reference room.)

NYSE Euronext  
20 Broad Street  
New York, NY 10005

## ITEM 1A - RISK FACTORS

*An investment in our common stock involves a high degree of risk. You should consider carefully the following risks and other information contained in this Transition Report on Form 10-K and other SEC filings before you decide whether to buy our common stock. The risks identified below are not all encompassing but should be considered in establishing an opinion of our future operations. If any of the events contemplated by the following discussion of risks should occur, our business, results of operations, financial condition and cash flows could suffer significantly. As a result, the market price of our common stock could decline and you may lose all or part of your investment in our common stock.*

### **Risks Related to Our Business and Operations**

***Our ability to protect our systems and data from continually evolving cybersecurity risks or other technological risks could affect our reputation among our merchant clients and cardholders and may expose us to penalties, fines, liabilities and legal claims.***

In order to provide our services, we process and store sensitive business information and personal information about our merchants, merchants' customers, merchants' employees, ISOs, vendors, partners and other parties. This information may include credit and debit card numbers, bank account numbers, social security numbers, driver's license numbers, names and addresses, and other types of personal information or sensitive business information. Some of this information is also processed and stored by our merchants, ISOs, third-party service providers to whom we outsource certain functions, and other agents (which we refer to collectively as our "associated third parties"). We have responsibility to the card networks, their member financial institutions, our merchants, and in some instances, individuals, for our failure or the failure of our associated third parties to protect this information.

While plans and procedures are in place to protect the sensitive data we collect, we cannot be certain that these measures will be successful and will be sufficient to counter all current and emerging technology threats that are designed to breach our systems in order to gain access to confidential information.

Our computer systems and our associated third parties' computer systems have been, and could be in the future, subject to penetration, and our data protection measures may not prevent unauthorized access. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and are often difficult to detect. Threats to our systems and our associated third parties' systems can derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. Computer viruses can be distributed and could infiltrate our systems or those of our associated third parties. In addition, denial of service or other attacks could be launched against us for a variety of purposes, including to interfere with our services or create a diversion for other malicious activities. Our defensive measures may not prevent unauthorized access or use of sensitive data. While we maintain first- and third-party insurance coverage that may cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses.

We could also be subject to liability for claims relating to misuse of personal information in violation of contractual obligations or data privacy laws. Regulatory authorities around the world are considering or have enacted a number of legislative and regulatory proposals concerning data protection and use, and the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere is increasingly uncertain, particularly where the laws do not contemplate newly developed technologies or uses for personal information. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices or operations model, which could result in potential liability for fines, damages or a need to incur substantial costs to modify our operations. In addition, we cannot provide assurance that the contractual requirements related to security and privacy that we impose on our service providers who have access to this data will be followed or will be adequate to prevent the misuse of this data. Any misuse of personal information or failure to adequately enforce these contractual requirements could result in liability, protracted and costly litigation and, with respect to misuse of personal information of our merchants and consumers, lost revenue and reputational harm.

Any type of security breach, attack or misuse of data described above or otherwise, whether experienced by us or an associated third party, could harm our reputation and deter existing and prospective customers from using our services or from making electronic payments generally, increase our operating expenses in order to contain and remediate the incident, expose us to unanticipated or uninsured liability, disrupt our operations (including potential service interruptions), distract our management, increase our risk of regulatory scrutiny, result in the imposition of penalties and fines under state, federal and foreign laws or by the card networks, and adversely affect our continued card network registration or membership and financial institution sponsorship. Our removal from networks' lists of Payment Card Industry Data Security Standard compliant service providers could mean that existing merchant customers, sales partners or other third parties may cease using or referring our services. Also, prospective

merchant customers, sales partners or other third parties may choose to terminate negotiations with us, or delay or choose not to consider us for their processing needs. In addition, the card networks could refuse to allow us to process through their networks.

***The payment processing industry is highly competitive, and 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 services offered to customers and the ability to develop new technologies.***

We operate in the electronic payments market, which is highly competitive. In this market, our primary competitors include other independent payment processors, as well as financial institutions, ISOs and, potentially, card networks. Many of our competitors are companies that are larger than we are, with greater financial and operational resources than we have. Our competitors that are financial institutions or subsidiaries of financial institutions do not incur the costs associated with being sponsored by a direct member for participation in the card networks, as we do in certain jurisdictions, and may be able to settle transactions more quickly for merchants than we can. These financial institutions may also provide payment processing services to merchants at a loss in order to generate banking fees from the merchants. It is also possible that larger financial institutions could decide to perform in-house some or all of the services that we currently provide or could provide. These attributes may provide them with a competitive advantage in the market.

Furthermore, we are facing increasing competition from nontraditional competitors, including new entrant technology companies who offer certain innovations in payment methods. Some of these competitors utilize proprietary software and service solutions. Others partner with traditional merchant acquirers to provide tablet-based solutions with payment processing services. Some of these nontraditional competitors have significant financial resources and robust networks and are highly regarded by consumers. In addition, some nontraditional competitors, such as private companies or startup companies, may be less risk averse than we are and, therefore, may be able to respond more quickly to market demands. If these nontraditional competitors gain a greater share of total electronic payments transactions, it could have a material adverse effect on our business, financial condition, results of operations and cash flows. These competitors may compete in ways that minimize or remove the role of traditional card networks, processors and/or point-of-sale software in the electronic payments process.

***In order to remain competitive and to continue to increase our revenues and earnings, we must continually and quickly update our services, a process that could result in higher costs and the loss of revenues, earnings and customers if the new services do not perform as intended or are not accepted in the marketplace.***

The electronic payments markets in which we compete are characterized by rapid 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 projects, including the development of a new authorization platform, mobile payment applications, ecommerce services and other new offerings emerging in the electronic payments industry. These projects carry the risks associated with any development effort, including cost overruns, delays in delivery and performance problems. In the electronic payments markets, these risks are even more acute. Any delay in the delivery of new services or the failure to differentiate our services could render our services less desirable to customers, or possibly even obsolete. Furthermore, as the market for alternative payment processing services evolves, it may develop too rapidly or not rapidly enough for us to recover the costs we have incurred in developing new services targeted at this market.

In addition, the services we deliver to the electronic payments markets are designed to process very complex transactions and deliver reports and other information on those transactions, all at very high volumes and processing speeds. Any failure to deliver an effective and secure product or any performance issue that arises with a new product or service could result in significant processing or reporting errors or other losses. As a result of these factors, our development efforts could result in higher costs that could reduce our earnings in addition to a loss of revenues and earnings if promised new services are not delivered timely to our customers or do not perform as anticipated. We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies.

***Our revenues from the sale of services to merchants that accept Visa cards and MasterCard cards are dependent upon our continued Visa and MasterCard registrations, financial institution sponsorship and, in some cases, continued membership in certain card networks.***

In order to provide our Visa and MasterCard transaction processing services, we must be either a direct member or be registered as a merchant processor or service provider of Visa and MasterCard, respectively. Registration as a merchant processor or service provider is dependent upon our being sponsored by Members of each organization in certain jurisdictions. If our sponsor financial institution should stop providing sponsorship for us, we would need to find another financial institution to provide those services or we would need to attain direct membership with the card networks, either of which could prove to be difficult and expensive. If we are unable to find a replacement financial institution to provide sponsorship or attain direct membership, we

may no longer be able to provide processing services to affected customers, which would negatively affect our revenues and earnings. Furthermore, some agreements with our bank sponsors give them substantial discretion in approving certain aspects of our business practices, including our solicitation, application and qualification procedures for merchants and the terms of our agreements with merchants. Our sponsors' discretionary actions under these agreements could have a material adverse effect on our business, financial condition, results of operations and cash flows. In connection with direct membership, the rules and regulations of various card associations and networks prescribe certain capital requirements. Any increase in the capital level required would limit our use of capital for other purposes.

***We rely on various financial institutions to provide clearing services in connection with our settlement activities. If we are unable to maintain clearing services with these financial institutions and are unable to find a replacement, our business may be adversely affected.***

We rely on various financial institutions to provide clearing services in connection with our settlement activities. If such financial institutions should stop providing clearing services, we must find other financial institutions to provide those services. If we are unable to find a replacement financial institution we may no longer be able to provide processing services to certain customers, which could negatively affect our revenues and earnings.

***If we fail to comply with the applicable requirements of the card networks, they could seek to fine us, suspend us or terminate our registrations or membership. If we incur fines or penalties for which our merchants or ISOs are responsible that we cannot collect or pursue collection from them, we may have to bear the cost of such fines or penalties.***

We are subject to card association and network rules that could subject us to a variety of fines or penalties that may be levied by the card networks for certain acts or omissions. The rules of the card networks are set by their boards, which may be influenced by card issuers, and some of those issuers are our competitors with respect to these processing services. Many banks directly or indirectly sell processing services to merchants in direct competition with us. These banks could attempt, by virtue of their influence on the networks, to alter the networks' rules or policies to the detriment of non-members, including us in certain jurisdictions. The termination of our registrations or our membership or our status as a service provider or a merchant processor, or any changes in card association or other network rules or standards, including interpretation and implementation of the rules or standards, that increase the cost of doing business or limit our ability to provide transaction processing services to our customers, could have a material adverse effect on our business, operating results, financial condition and cash flows. If a merchant or an ISO fails to comply with the applicable requirements of the card associations and networks, we or the merchant or ISO could be subject to a variety of fines or penalties that may be levied by the card associations or networks. If we cannot collect or pursue collection of such amounts from the applicable merchant or ISO, we may have to bear the cost of such fines or penalties, resulting in lower earnings for us. The termination of our registration, or any changes in the Visa or MasterCard rules that would impair our registration, could require us to stop providing Visa and MasterCard payment processing services, which would make it impossible for us to conduct our business on its current scale.

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

We depend on the efficient and uninterrupted operation of our computer systems, software, data centers and telecommunications networks, as well as the systems and services of third parties. A system outage or data loss could have a material adverse effect on our business, financial condition, results of operations and cash flows. Not only would we suffer damage to our reputation in the event of a system outage or data loss, but we may also be liable to third parties. Our systems and operations or those of our third-party providers could be exposed to damage or interruption from, among other things, fire, natural disaster, power loss, telecommunications failure, terrorist acts, war, unauthorized entry, human error, and computer viruses or other defects. Defects in our systems or those of third parties, errors or delays in the processing of payment transactions, telecommunications failures, or other difficulties (including those related to system relocation) could result in loss of revenue, loss of customers, loss of merchant and cardholder data, harm to our business or reputation, exposure to fraud losses or other liabilities, negative publicity, additional operating and development costs, fines and other sanctions imposed by card networks, and/or diversion of technical and other resources.

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

Our services are based on sophisticated software and computing systems that often encounter development delays and the underlying software may contain undetected errors, viruses or defects. Defects in our software services and errors or delays in our processing of electronic transactions could result in additional development costs, diversion of technical and other resources

from our other development efforts, loss of credibility with current or potential customers, harm to our reputation and exposure to liability claims.

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

***Increased merchant, referral partner or ISO attrition could cause our financial results to decline.***

We experience attrition in merchant credit and debit card processing volume resulting from several factors, including business closures, transfers of merchants' accounts to our competitors, unsuccessful contract renewal negotiations and account closures that we initiate for various reasons, such as heightened credit risks or contract breaches by merchants. If an ISO partner switches to another transaction processor, terminates our services, internalizes payment processing functions that we perform, merges with or is acquired by one of our competitors, or shuts down or becomes insolvent, we may no longer receive new merchant referrals from the ISO, and we risk losing existing merchants that were originally enrolled by the ISO. We cannot predict the level of attrition in the future and it could increase. Our referral partners are a significant source of new business. Higher than expected attrition could negatively affect our results, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Our future growth depends in part on the continued expansion of markets in which we already operate, the emergence of new markets, and the continued availability of alliance relationships and strategic acquisition opportunities.***

Our future growth and profitability depend upon our continued expansion within the markets in which we currently operate, the further expansion of these markets, the emergence of other markets for electronic transaction payment processing and our ability to penetrate these markets. As part of our strategy to achieve this expansion, we look 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 value and benefits we anticipate.

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

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

If consumers do not continue to use credit or debit cards as a payment mechanism for their transactions or if there is a change in the mix of payments between cash, checks, credit cards, and debit cards, which is adverse to us, it could have a material adverse effect on our business, financial condition, results of operations and cash flows. Consumer credit risk may make it more difficult or expensive for consumers to gain access to credit facilities such as credit cards. Regulatory changes may result in financial institutions seeking to charge their customers additional fees for use of credit or debit cards. Such fees may result in decreased use of credit or debit cards by cardholders. In each case, our business, financial condition, results of operations and cash flows may be adversely affected. We believe future growth in the use of credit and debit cards and other electronic payments will be driven by the cost, ease-of-use, and quality of services offered to consumers and businesses. In order to consistently increase and maintain our profitability, consumers and businesses must continue to use electronic payment methods that we process, including credit and debit cards.

***We incur chargeback losses when our merchants refuse or cannot reimburse us for chargebacks resolved in favor of their customers. Any increase in chargebacks not paid by our merchants may adversely affect our results of operations, financial condition and cash flows.***

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



risk by requiring collateral and monitoring transaction activity. Notwithstanding our programs and policies for managing credit risk, it is possible that a default on such obligations by one or more of our merchants could have a material adverse effect on our business.

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

We have potential liability for fraudulent electronic payment transactions or credits initiated by merchants or others. Examples of merchant fraud include when a merchant or other party knowingly uses a stolen or counterfeit credit or debit card, card number, or other credentials to record a false sales or credit transaction, processes an invalid card, or intentionally fails to deliver the merchandise or services sold in an otherwise valid transaction. Criminals are using increasingly sophisticated methods to engage in illegal activities such as counterfeiting and fraud. Failure to effectively manage risk and prevent fraud could increase our chargeback losses or cause us to incur other liabilities. It is possible that incidents of fraud could increase in the future. Increases in chargebacks or other liabilities could have a material adverse effect on our operating results, financial condition and cash flows.

***We are subject to economic and political risk, the business cycles and credit risk of our customers and the overall level of consumer, business and government spending, which could negatively affect our business, financial condition, results of operations and cash flows.***

The global electronic payments industry depends heavily on the overall level of consumer, business and government spending. We are exposed to general economic conditions that affect consumer confidence, consumer spending, consumer discretionary income and changes in consumer purchasing habits. A sustained deterioration in general economic conditions in the markets in which we operate or increases in interest rates may adversely affect our financial performance by reducing the number or average purchase amount of transactions made using electronic payments. A reduction in the amount of consumer spending could result in a decrease in our revenues and profits. If our merchants make fewer sales to consumers using electronic payments or consumers using electronic payments spend less per transaction, we will have fewer transactions to process or lower transaction amounts, each of which would contribute to lower revenues.

A downturn in the economy could force retailers to close, resulting in exposure to potential credit losses and future transaction declines. Furthermore, credit card issuers may reduce credit limits and be more selective with respect to whom they issue credit cards. We also have a certain amount of fixed and other costs, including rent, debt service, and salaries, which could limit our ability to quickly adjust costs and respond to changes in our business and the economy. Changes in economic conditions could also adversely affect our future revenues and profits and cause a materially adverse effect on our business, financial condition, results of operations and cash flows.

In addition, a recessionary economic environment could affect our merchants through a higher rate of bankruptcy filings, resulting in lower revenues and earnings for us. Our associated third parties are also liable for any fines or penalties that may be assessed by any card networks. In the event that we are not able to collect such amounts from our merchants or the associated third parties, due to fraud, breach of contract, insolvency, bankruptcy or any other reason, we may be liable for any such charges.

Reject losses arise from the fact that, in most markets, we collect our fees from our merchants on the first day after the monthly billing period. This results in the build-up of a substantial receivable from our customers. If a merchant has gone out of business during the billing period, we may be unable to collect such fees, which could negatively affect our business, financial condition, results of operations and cash flows.

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

From time-to-time, the card networks, including Visa and MasterCard, increase the fees that they charge processors. We could attempt to pass these increases along to our merchant customers, but this strategy might result in the loss of customers to our competitors who may not pass along the increases, thereby reducing our revenues and earnings. If competitive practices prevent us from passing along the higher 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.

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

Our business is affected by laws and regulations and examinations that affect us and our industry in the countries in which we operate. Regulation and proposed regulation of the payments industry has increased significantly in recent years. Failure to comply with regulations or guidelines may result in the suspension or revocation of a license or registration, the limitation,

suspension or termination of service, and the imposition of civil and criminal penalties, including fines, or may cause customers or potential customers to be reluctant to do business with us, any of which could have an adverse effect on our financial condition. For example, we are subject to the card network rules of Visa, MasterCard and other card networks, Interac, and various debit networks; applicable privacy and information security regulations in the regions where we operate and of the card networks; the Payment Services Directive in Europe; The Code of Conduct for the Credit and Debit Card Industry in Canada (issued by Canada's Department of Finance); the Housing Assistance Tax Act of 2008 in the United States, which requires information returns to be made for each calendar year by merchant acquiring entities; and a myriad of U.S. federal and state consumer protection laws and state escheat regulations. We are also subject to examination by the FFIEC as a result of our provision of data processing services to financial institutions.

Interchange fees (which are typically paid by the acquirer to the issuer in connection with transactions) are subject to increasingly intense legal, regulatory and legislative scrutiny worldwide. For instance, the Dodd-Frank Act, which was signed into law in July 2010, significantly changed the U.S. financial regulatory system. Changes affecting the payment processing industry include restricting amounts of debit card fees that certain issuing institutions can charge merchants and allowing merchants to set minimum amounts for the acceptance of credit cards and to offer discounts for different payment methods. These restrictions could negatively affect the number of debit transactions, which would adversely affect our business. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (the "CFPB"), which has assumed responsibility for most federal consumer protection laws, and the Financial Stability Oversight Council, which has the authority to determine whether any nonbank financial company, such as us, should be supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve") on the ground that it is "systemically important" to the U.S. financial system. Any such designation would result in increased regulatory burdens on our business, which increases our risk profile and may have an adverse effect on our business, financial condition, results of operations and cash flows.

All persons offering or providing financial services or products to consumers, directly or indirectly, can be subject to prohibitions against unfair, deceptive, or abusive acts or practices ("UDAAP") under the Dodd-Frank Act. The CFPB has enforcement authority to prevent an entity that offers or provides consumer financial services or products or a service provider from committing or engaging in UDAAP, including the ability to engage in joint investigations with other agencies, issue subpoenas and civil investigative demands, conduct hearings and adjudication proceedings, commence a civil action, grant relief (e.g., limit activities or functions; rescission of contracts), and refer matters for criminal proceedings. More generally, all persons engaged in commerce, including, but not limited to, us and our merchant and financial institution customers, are also subject to Section 5 of the Federal Trade Commission ("FTC") Act prohibiting unfair or deceptive acts or practices ("UDAP"). In addition, there are other laws, rules and or regulations, including the Telemarketing Sales Act, that may directly impact the activities of our merchant customers and in some cases may subject us, as the merchant's payment processor, to investigations, fees, fines and disgorgement of funds in the event we are deemed to have aided and abetted or otherwise provided the means and instrumentalities to facilitate the illegal activities of the merchant through our payment processing services. Various federal and state regulatory enforcement agencies, including the FTC, the CFPB and the states' attorneys general have the authority to take action against nonbanks that engage in UDAP or violate other laws, rules or regulations and, to the extent we are processing payments for a merchant that may be in violation of these laws, rules or regulations, we may be subject to enforcement actions and as a result may incur losses and liabilities.

In many countries, we are legally or contractually required to comply with the anti-money laundering laws and regulations, such as, in the United States, the BSA, as amended by the USA PATRIOT Act, and similar laws of other countries, which require that customer identifying information be obtained and verified. In some countries, we are directly subject to these requirements; in other countries, we have contractually agreed to assist our sponsor financial institutions with their obligation to comply with anti-money laundering requirements that apply to them. In addition, we and our sponsor financial institutions are subject to the laws and regulations enforced by the Office of Foreign Assets Control ("OFAC"), which prohibit U.S. persons from engaging in transactions with certain prohibited persons or entities. Similar requirements apply in other countries. Our failure to comply with any of these contractual requirements or laws could adversely affect our business, financial credit results of operations and cash flows.

On July 26, 2011, the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, or FinCEN, issued a final rule regarding the applicability of the Bank Secrecy Act's regulations to "prepaid access" products and services. This rulemaking clarifies the anti-money laundering obligations for entities engaged in the provision and sale of prepaid services such as prepaid cards. This rule increases our regulatory risks and, as with other regulatory requirements, violations of the rule could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Portions of our business may be subject to the Fair Debt Collection Practices Act, the Fair Credit Reporting Act and similar state laws. These debt collection laws are designed to eliminate abusive, deceptive and unfair debt collection practices and may require licensing at the state level. The Fair Credit Reporting Act regulates the use and reporting of consumer credit information

and also imposes disclosure requirements on entities that take adverse action based on information obtained from credit reporting agencies. If we fail to comply with any of these laws, to the extent they are applicable to us, we may be subject to fines, penalties and litigation.

Changes to legal rules and regulations, or interpretation or enforcement thereof, even if not directed at us, may require significant efforts to change our systems and services and may require changes to how we price our services to customers, adversely affecting our business. Even an inadvertent failure to comply with laws and regulations, as well as rapidly evolving social expectations of corporate fairness, could damage our business or our reputation. Furthermore, we are subject to tax laws in each jurisdiction where we conduct business. Changes in such laws or their interpretations could decrease the value of revenues we receive, the value of tax losses and tax credit carry forwards recorded on our balance sheet and have a material adverse effect on our operating results, financial condition and cash flows.

***We are subject to risks associated with changes in interest rates or currency exchange rates, which could adversely affect our business, financial position, results of operations and cash flows, and we may not effectively hedge against these risks.***

A substantial portion of our indebtedness accrues interest at a variable rate, and we may incur additional variable-rate indebtedness in the future. Increases in interest rates will reduce our operating cash flows and could hinder our ability to fund our operations, capital expenditures, acquisitions, share repurchases or dividends. We are also subject to risks related to the changes in currency exchange rates as a result of our investments in foreign operations and from revenues generated in currencies other than the U.S. dollar. Revenues and profit generated by international operations will increase or decrease compared to prior periods as a result of changes in foreign currency exchange rates. Volatility in currency exchange rates has affected and may continue to affect our financial results.

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

We may seek to reduce our exposure to fluctuations in interest rates or foreign currency exchange rates through the use of hedging arrangements. To the extent that we hedge our interest rate or foreign currency exchange rate exposures, we forgo the benefits we would otherwise experience if interest rates or foreign currency exchange rates were to change in our favor. Developing an effective strategy for dealing with movements in interest rates and currency exchange rates is complex, and no strategy can completely insulate us from risks associated with such fluctuations. In addition, a counterparty to the arrangement could default on its obligation, thereby exposing us to credit risk. We may have to repay certain costs, such as transaction fees or breakage costs, if we terminate these arrangements. Finally, our interest rate and currency exchange rate risk management activities could expose us to substantial losses if such rates move materially differently from our expectations.

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

We expect to continue to expand our operations into various countries in Europe and the Asia-Pacific region. Some of these countries, and other foreign countries in which we operate, such as the Russian Federation and the United Kingdom, have undergone significant political, economic and social change in recent years, and the risk of new, unforeseen changes in these countries remains greater than in the United States. Our business, growth, financial condition or results of operations could be materially adversely affected by instability or changes in a country's or region's economic conditions; changes in laws or regulations or in the interpretation of existing laws or regulations, whether caused by a change in government or otherwise; increased difficulty of conducting business in a country or region due to actual or potential political or military conflict; or action by the European Union or the United States, Canada or other governments that may restrict our ability to transact business in a foreign country or with certain foreign individuals or entities, such as sanctions by or against the Russian Federation.

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

On June 23, 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union, commonly referred to as "Brexit." The referendum has caused, and may continue to cause, volatility in global stock markets and currency exchange rate fluctuations, resulting in a decline in the value of the British pound relative to the U.S. dollar. In addition,

it is expected that the British government will begin negotiating the terms of the United Kingdom's future relationship with the European Union. Although it is not known what those terms will be, it is possible that there will be increased regulatory complexities, including without limitation regulation relating to data security, privacy, and taxation. These changes may adversely affect our operations, financial results and cash flows.

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

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

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

- If we are unable to successfully integrate the benefits plans, duties and responsibilities, and other factors of interest to the management and employees of the acquired business, we could lose employees to our competitors in the region, which could significantly affect our ability to operate the business and complete the integration;
- If the integration process causes any delays with the delivery of our services, or the quality of those services, we could lose customers to our competitors, which would reduce our revenues and earnings;
- The acquisition may otherwise cause disruption to the acquired company's business and operations and relationships with financial institution sponsors, customers, merchants, employees and other partners;
- 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; and
- The costs related to the integration of the acquired company's business and operations into ours may be greater than anticipated.

***The costs and effects of pending and future litigation, investigations or similar matters, or adverse facts and developments related thereto, could materially affect our business, financial position, results of operations and cash flows.***

We are from time-to-time involved in various litigation matters and governmental or regulatory investigations or similar matters arising out of our current or future business. Our insurance or indemnities may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Furthermore, there is no guarantee that we will be successful in defending ourselves in pending or future litigation or similar matters under various laws. Should the ultimate judgments or settlements in any pending litigation or future litigation or investigation significantly exceed our insurance coverage, they could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***We may not be able to successfully manage our intellectual property and may be subject to infringement claims.***

In our rapidly developing legal framework, we rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our proprietary technology. Despite our efforts to protect our intellectual property, third parties may infringe or misappropriate our intellectual property or may develop software or technology competitive to us. Our competitors may independently develop similar technology, duplicate our services or design around our intellectual property rights. We may have to litigate to enforce and protect our intellectual property rights, trade secrets and know-how or to determine their scope, validity or enforceability, which is expensive and could cause a diversion of resources and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm our business and ability to compete.

We may also be subject to costly litigation in the event our services and technology infringe upon another party's proprietary rights. Third parties may have, or may eventually be issued, patents that would be infringed by our services or technology. Any of these third parties could make a claim of infringement against us with respect to our services or technology. We may also be subject to claims by third parties for breach of copyright, trademark or license usage rights. Any such claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could limit our ability to use the intellectual property subject to these claims and require us to design around a third party's patent, which may not be possible, or to license alternative technology from another party, which may be costly. In addition, litigation is time consuming and expensive to defend and could result in the diversion of the time and attention of our management and employees.

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

Our tax returns and positions are subject to review and audit by federal, state, local and international taxing authorities. An unfavorable outcome to a tax audit could result in higher tax expense, thereby negatively affecting our results of operations. We have recognized estimated liabilities on the balance sheet for material known tax exposures relating to deductions, transactions and other matters involving some uncertainty as to the proper tax treatment of the item. These liabilities reflect what we believe to be reasonable assumptions as to the likely final resolution of each issue if raised by a taxing authority. While we believe that the liabilities are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be finally resolved at a financial cost less than any related liability. An unfavorable resolution, therefore, could negatively affect our financial position, results of operations and cash flows in the current and/or future periods.

We record deferred income taxes to reflect the effect of temporary differences between the amounts of assets and liabilities for financial accounting and income tax purposes. Deferred income taxes are determined using enacted tax rates. Changes in enacted tax rates may negatively affect our results of operations.

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

As a payment services company we are or may be subject in various jurisdictions to certain taxes that are not derived based on earnings (e.g. sales, gross receipts, property, value-added and other business taxes). Application of these taxes is an emerging issue in our industry and the taxing authorities have not yet all adopted uniform regulations on certain of these topics. If we are required to pay such taxes and are not able to pass the tax expense through to our merchant customers, our costs will increase, reducing our earnings.

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

**Risks Related to Our Organizational and Capital Structure**

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

All of our businesses function at the intersection of rapidly changing technological, social, economic and regulatory developments that requires a wide ranging set of expertise and intellectual capital. To successfully compete and grow, we must recruit, develop and retain the necessary personnel who can provide the needed expertise across the entire spectrum of intellectual capital needs. In addition, we must develop our personnel to fulfill succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. However, the market for qualified personnel is competitive, and we may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart with qualified or effective successors. We cannot assure that key personnel, including executive officers, will continue to be employed or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***We increased our indebtedness to finance our merger with Heartland, which could adversely affect us, including by decreasing our business flexibility.***

In connection with our merger with Heartland, we entered into an amendment to our corporate credit facility to fund the cash consideration for the Heartland transaction, repay certain of Heartland's indebtedness and pay related fees and expenses. As of December 31, 2016, the outstanding balance under our corporate credit facility was \$4.5 billion. Our increased level of debt

and the covenants to which we have agreed in connection with this and other financing transactions could, among other things, (i) require us to dedicate a larger portion of our cash flow from operations to servicing and repayment of the debt, (ii) reduce funds available for strategic initiatives and opportunities, working capital and other general corporate needs and (iii) limit our ability to incur certain kinds or amounts of additional indebtedness, which could restrict our flexibility to react to changes in our business our industry and economic conditions.

***The Company's debt agreements contain restrictions that may limit our flexibility in operating our business and our ability to return capital to our shareholders.***

Our corporate credit facility contains various covenants that limit our ability and the ability of our subsidiaries to engage in specified types of transactions. These covenants limit our ability in certain circumstances to, among other things:

- incur additional indebtedness;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain lines of business;
- enter into certain transactions with affiliates;
- pay dividends and repurchase shares of our common stock.

Our corporate credit facility also contains customary financial covenants based on our leverage ratio and our fixed charge coverage ratio.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of the revolving credit facility, permit the lenders to cease making loans to us. Upon the occurrence of an event of default under our corporate credit facility, the lenders could elect to declare all amounts outstanding under our corporate credit facility to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under certain of our other indebtedness. If we are unable to repay those amounts, the lenders under our corporate credit facility could accelerate the repayment of borrowings, and we may not have sufficient assets to repay our corporate credit facility as well as our other indebtedness.

***We may need to raise additional funds to finance our future capital needs, which may prevent us from growing our business.***

We may need to raise additional funds to finance our future capital needs, including developing new products and technologies or to fund future acquisitions or operating needs. If we raise additional funds through the sale of equity securities, these transactions may dilute the value of our outstanding common stock. We may also decide to issue securities, including debt securities that have rights, preferences and privileges senior to our common stock. We may be unable to raise additional funds on terms favorable to us or at all. If financing is not available or is not available on acceptable terms, we may be unable to fund our future needs. This may prevent us from increasing our market share, capitalizing on new business opportunities or remaining competitive in our industry.

***Our balance sheet includes significant amounts of goodwill and intangible assets. The impairment of a significant portion of these assets would negatively affect our business, financial condition and results of operations.***

As a result of our acquisitions, a significant portion of our total assets are intangible assets (including goodwill). Goodwill and intangible assets, net of amortization, together accounted for approximately 65% of the total assets on our balance sheet as of December 31, 2016. We expect to engage in additional acquisitions, which may result in our recognition of additional intangible assets and goodwill. We evaluate on a regular basis whether all or a portion of our goodwill and other intangible assets may be impaired. Under current accounting rules, any determination that impairment has occurred would require us to record an impairment charge, which would negatively affect our earnings. An impairment of a significant portion of goodwill or intangible assets could have a material adverse effect on our business, financial condition, and results of operations.

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

The extent to which we pay dividends on our common stock and repurchase our common stock in the future is at the discretion of our board of directors and will depend on, among other factors, our results of operations, financial condition, capital requirements, compliance with debt covenants and such other factors as our board of directors deems relevant. Our corporate credit facility may prohibit us from (i) repurchasing more than \$250 million of our common stock in any fiscal year and (ii) paying quarterly dividends

in excess of \$0.01 per share. 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.

***Our risk management policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.***

We operate in a rapidly changing industry. Accordingly, our risk management policies and procedures may not be fully effective to identify, monitor and manage our risks. If our policies and procedures are not fully effective or we are not always successful in identifying and mitigating all risks to which we are or may be exposed, we may suffer uninsured liability, harm to our reputation or be subject to litigation or regulatory actions that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

In certain markets, including, without limitation, China, the Republic of Malta and Spain, our member sponsors perform payment processing operations and related support services pursuant to services agreements. We expect that the member sponsors will continue to provide these services until such time as we may integrate these functions into our operations. Accordingly, we rely on our member sponsors to provide financial data, such as amounts billed to merchants, to assist us with compiling our accounting records. As such, our internal control over financial reporting could be materially affected, or is reasonably likely to be materially affected, by the internal control and procedures of our member sponsors in these markets. In order to mitigate this risk, we have implemented internal controls over financial reporting to monitor the accuracy of the financial data being provided by our member sponsors.

While we continue to dedicate resources and management time to ensuring that we have effective internal control 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 and provisions of Georgia law could delay or prevent a change in control that individual shareholders favor.***

Provisions of our articles of incorporation and by-laws and provisions of applicable Georgia law may discourage, delay or prevent a merger or other change in control that individual 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.

## **ITEM 2 - PROPERTIES**

Our principal facilities in North America are located in Atlanta, Georgia; Jeffersonville, Indiana; Las Vegas, Nevada; Lindon, Utah; and Toronto, Canada. Our principal facilities in Europe are located in Barcelona, Spain; Dublin, Ireland; Leicester, England; London, England; Moscow, Russia; and Prague, Czech Republic. Our principal facilities in the Asia-Pacific region are located in Brisbane, Australia; Hong Kong Special Administrative Region, China; and Manila, Philippines. At December 31, 2016, we owned five facilities and leased 46 domestic properties and 81 international properties which we use for operational, sales and administrative purposes. We believe that all of our facilities and equipment will be 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 our business. In our opinion, the liabilities, if any, which may ultimately result from the outcome of such matters, individually or in the aggregate, are not expected to have a material adverse effect on our financial position, liquidity, results of operations or cash flows.

Heartland, Heartland's board of directors, Global Payments, Data Merger Sub One, Inc. (a wholly owned subsidiary of Global Payments, which we refer to as "Data Merger Sub One") and Data Merger Sub Two, LLC (a wholly owned subsidiary of Global Payments, which we refer to as "Data Merger Sub Two") were named as defendants in a putative class action lawsuit challenging the proposed merger with Heartland. The suit was filed on January 8, 2016 in the New Jersey Superior Court, Mercer County, Civil Division, and is captioned Kevin Merchant v. Heartland Payment Systems, et al, L-45-16. The complaint alleges, among other things, that the directors of Heartland breached their fiduciary duties to Heartland stockholders by agreeing to sell Heartland for inadequate consideration, agreeing to improper deal protection terms in the merger agreement, failing to properly value Heartland, and filing a materially incomplete registration statement with the Securities and Exchange Commission. In addition, the complaint alleges that Heartland, Global Payments, Merger Sub One, and Merger Sub Two aided and abetted these purported breaches of fiduciary duty. On April 12, 2016, solely to avoid the costs, disruption and distraction of further litigation, and without admitting the validity of any allegations made by the plaintiff, Heartland and Global Payments reached an agreement to settle the suit and entered into a Memorandum of Understanding to document the terms and conditions for settlement of the suit. The court has approved the settlement and the parties are working with a class administrator to notify the class members. The settlement releases all claims that were or could have been brought challenging any aspect of the merger with Heartland or the merger agreement related thereto. The terms of the settlement will be disclosed to stockholders before final approval of the proposed settlement. The settlement is not expected to have a material adverse effect on our financial position, liquidity, results of operations or cash flows.



**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 fiscal 2016 transition period and each of the four quarters during fiscal 2016 and 2015. We expect to continue to pay our shareholders a dividend, 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, compliance with debt covenants and such other factors as the board of directors deems relevant.

	<u>High</u>	<u>Low</u>	<u>Dividend Per Share</u>
<b>2016 Fiscal Transition Period:</b>			
First Quarter	\$ 79.93	\$ 67.04	\$ 0.01
Second Quarter	79.24	64.63	0.01
June 1, 2016 through December 31, 2016	79.93	64.63	0.02
<b>Fiscal 2016:</b>			
First Quarter	\$ 59.29	\$ 50.69	\$ 0.01
Second Quarter	72.91	54.03	0.01
Third Quarter	74.64	51.29	0.01
Fourth Quarter	78.30	58.11	0.01
<b>Fiscal 2015:</b>			
First Quarter	\$ 37.23	\$ 33.67	\$ 0.01
Second Quarter	43.36	34.30	0.01
Third Quarter	46.50	38.58	0.01
Fourth Quarter	53.03	43.84	0.01

As of February 22, 2017, there were 2,182 shareholders of record.

**Equity Compensation Plan Information**

The information regarding our compensation plans under which equity securities are authorized for issuance is set forth in "Item 2 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Transition Report.

**Sale of Unregistered Securities**

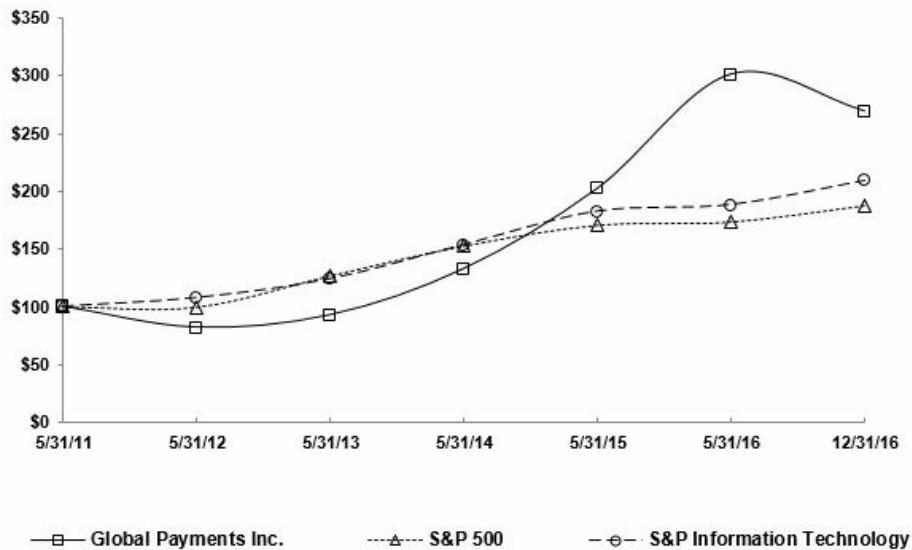
We did not issue any unregistered securities during the 2016 fiscal transition period or during the years ended May 31, 2016, 2015 and 2014.

**Stock Performance Graph**

The following graph compares our cumulative shareholder returns with the Standard & Poor's Information Technology Index and the Standard & Poor's 500 Index for the five years ended May 31, 2016 and for the 2016 fiscal transition period. 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 Index on May 31, 2011 and assumes reinvestment of all dividends.

**COMPARISON OF CUMULATIVE TOTAL RETURN\***

Among Global Payments Inc., the S&P 500 Index  
and the S&P Information Technology Index  
For the Period from May 31, 2011 to December 31, 2016



\*\$100 invested on May 31, 2011 in stock or index, including reinvestment of dividends.  
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	Global Payments	S&P 500	S&P Information Technology
May 31, 2011	\$ 100.00	\$ 100.00	\$ 100.00
May 31, 2012	81.90	99.59	107.57
May 31, 2013	92.63	126.75	123.83
May 31, 2014	132.59	152.67	153.42
May 31, 2015	202.06	170.69	182.29
May 31, 2016	300.97	173.62	187.97
December 31, 2016	268.97	187.69	208.77

**Issuer Purchases of Equity Securities**

We repurchased and retired 2.5 million shares of our common stock at a cost of \$178.2 million including commissions, or an average price of \$70.77 per share, during the 2016 fiscal transition period, as previously authorized. On January 5, 2017, our board of directors increased the authorization to repurchase up to \$300 million of our common stock.

Information about the shares of our common stock that we repurchased during the month ended December 31, 2016 is set forth below:

Month	Number of Shares Purchased	Average Price per Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
December 2016	86,246	\$ 66.79	86,246	\$ 88.7

**ITEM 6 - SELECTED FINANCIAL DATA**

You should read the selected financial data set forth below in conjunction with (i) "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," (ii) "Item 8 - Financial Statements and Supplementary Data" and (iii) the historical consolidated financial statements of Global Payments and the related notes presented in its Annual Report on Form 10-K for the year ended May 31, 2016. The income statement data for the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015, and 2014 and the balance sheet data as of December 31, 2016, May 31, 2016 and 2015 are derived from the audited consolidated financial statements included elsewhere in this Transition Report. The income statement data for fiscal years 2013 and 2012 and the balance sheet data as of May 31, 2014 and 2013 were derived from consolidated financial statements included in our Annual Report on Form 10-K for the year ended May 31, 2014. The balance sheet data as of May 31, 2012 was derived from audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended May 31, 2013.

	Seven Months Ended December 31,		Year Ended May 31,			
	2016	2016	2015	2014	2013	2012
(in thousands, except per share data)						
<b>Income statement data:</b>						
Revenues	\$ 2,202,896	\$ 2,898,150	\$ 2,773,718	\$ 2,554,236	\$ 2,375,923	\$ 2,203,847
Operating income	237,951	424,944	456,597	405,499	357,213	307,349
Net income	137,683	290,217	309,115	269,952	238,713	217,566
Net income attributable to Global Payments	124,931	271,666	278,040	245,286	216,125	188,161
<b>Per share data:</b>						
Basic earnings per share	\$ 0.81	\$ 2.05	\$ 2.07	\$ 1.70	\$ 1.39	\$ 1.19
Diluted earnings per share	0.81	2.04	2.06	1.69	1.38	1.18
Dividends per share	0.02	0.04	0.04	0.04	0.04	0.04
<b>Balance sheet data (at period end):</b>						
Total assets	\$ 10,664,350	\$ 10,509,952	\$ 5,779,301	\$ 4,002,527	\$ 3,114,025	\$ 2,665,678
Settlement lines of credit	392,072	378,436	592,629	440,128	187,461	215,391
Long-term debt	4,438,612	4,515,286	1,740,067	1,390,507	960,749	312,953
Total equity	2,779,342	2,877,404	863,553	1,132,799	1,286,607	1,445,343

The selected financial data in the table above as of December 31, 2016 and May 31, 2016 and for periods then ended reflect the effects of our merger with Heartland and the associated refinancing and increase of our corporate credit facility. See "Note 2 - Acquisitions" in the notes to the accompanying consolidated financial statements for further discussion of the merger with Heartland.

Operating income, net income, net income attributable to Global Payments and basic and diluted earnings per share in the table above reflect:

- (a) expenses incurred in connection with our merger with Heartland of \$91.6 million for the 2016 fiscal transition period and \$51.3 million for the year ended May 31, 2016; and,

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(b) a credit of \$7.0 million (pre-tax) during the year ended May 31, 2014 and charges of \$36.8 million (pre-tax) and \$84.4 million (pre-tax) for the years ended May 31, 2013 and 2012, respectively, related to a processing system intrusion that occurred in the year ended May 31, 2012.

Finally, net income, net income attributable to Global Payments and basic and diluted earnings per share in the table above reflect for the seven months ended December 31, 2016 a gain of \$41.2 million recorded in connection with the sale of our membership interests in Visa Europe.

## 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 actual 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." See "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."

### General

We are a leading worldwide provider of payment technology services delivering innovative solutions to our customers globally. Our technologies, partnerships and employee expertise enable us to provide a broad range of services that allow our customers to accept various payment types. We distribute our services across a variety of channels to merchants and partners in 30 countries throughout North America, Europe, the Asia-Pacific region and Brazil and operate in three reportable segments: North America, Europe and Asia-Pacific.

We were incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from our former parent company in 2001. Including our time as part of our former parent company, we have been in the payment technology services business since 1967. Since our spin-off, we have grown our annual revenues from \$353 million for the year ended May 31, 2001 to \$2.9 billion for the year ended May 31, 2016, through internal expansion of existing operations and through acquisitions. In particular, we recently completed our largest business combination to date when we merged with Heartland Payment Systems, Inc. ("Heartland") in April 2016.

Headquartered in Atlanta, Georgia, we are a member of the Standard & Poor's 500 Index ("S&P 500"), and our common stock is traded on the New York Stock Exchange under the symbol "GPN." Global Payments Inc. and its consolidated subsidiaries are referred to collectively as "Global Payments," the "Company," "we," "our" or "us," unless the context requires otherwise.

Our payment solutions are similar around the world in that we enable our merchant customers to accept card, electronic, check and digital-based payments at the point of sale. Our comprehensive offerings include terminal sales and deployment, authorization processing, settlement and funding processing, customer support and help-desk functions, chargeback resolution, industry compliance, Payment Card Industry security, consolidated billing and statements and on-line reporting.

The majority of merchant services revenues is generated by services priced as a percentage of transaction amount or a specified fee per transaction, depending on the card type or the vertical. We also earn other fees based on specific services that are unrelated to the number or value of transactions.

Our primary business model is to actively market and provide our payment services directly to merchants through a variety of distribution channels. We offer high touch services that provide our merchants with reliable and secure payment solutions coupled with high quality and responsive support services.

We also provide our services through a wholesale distribution channel where we do not maintain the face-to-face relationship with the merchant. Through our wholesale channel, we provide payment processing services through third-party sales groups referred to as independent sales organizations ("ISOs"). The ISOs act as a third-party sales group selling our payment technology services, with the majority of Global Payments' ISOs marketing direct merchant services.

We seek to leverage the continued shift to electronic payments by expanding market share in our existing markets through our distribution channels or through acquisitions in North America, the Asia-Pacific region and Europe, and investing in and leveraging technology and people, thereby maximizing shareholder value. We also seek to enter new markets through acquisitions in Europe, the Asia-Pacific region and the Latin America region.

Our business has not had pronounced seasonality in which more than 30% of our revenues occurred in one fiscal quarter. However, each geographic channel has somewhat higher and lower quarters given the nature of the merchant portfolio. While there has been some variation in seasonality across markets, the first (June, July and August) and fourth (March, April and May) fiscal quarters were generally the strongest, and the third (December, January and February) fiscal quarter tended to be the weakest due to lower volumes processed in the months of January and February.

We have changed our fiscal year end from May 31 to December 31, effective December 31, 2016. As a result, the period consisting of the seven months ended December 31, 2016 is considered the "2016 fiscal transition period." When our financial results for the 2016 fiscal transition period are compared to our financial results for the same period in 2015, the results compare the seven-month period from June 1, 2016 through December 31, 2016 to the financial results for the seven-month period from June 1, 2015 through December 31, 2015. The results for the seven months ended December 31, 2015 are unaudited.

## Executive Overview

We experienced strong business and financial performance around the world during the 2016 fiscal transition period. Highlights related to our financial condition and results of operations as of December 31, 2016 and for the seven months then ended include the following:

- Consolidated revenues increased by 27.3% to \$2,202.9 million for the 2016 fiscal transition period from \$1,730.1 million for the prior-year period, reflecting growth in each of our operating segments and additional revenues from acquired businesses, despite the unfavorable effect of fluctuations in foreign currency exchange rates of \$35.3 million.
- Consolidated operating income was \$238.0 million for the 2016 fiscal transition period compared to \$306.5 million for the prior-year period. Our operating margin for the 2016 fiscal transition period was 10.8% compared to 17.7% for the prior-year period. The contribution of the revenue growth in local currency was more than offset by an increase in amortization expense of \$145.6 million and Heartland integration expenses of \$91.6 million.
- On October 31, 2016, we amended our corporate credit facility, which among other things increased our borrowing capacity by \$250 million and reduced the leverage-based margin on our term loans and revolving credit facility. We expect this refinancing to yield \$10 million to \$12 million of annual interest expense savings, net of additional anticipated expense associated with future interest rate hedging activities.
- On June 21, 2016, Visa Inc. ("Visa") acquired all of the membership interests in Visa Europe Limited ("Visa Europe"), including ours, and we recorded a gain on the sale of those investments of \$41.2 million.
- Net income attributable to Global Payments was \$124.9 million for the 2016 fiscal transition period compared to \$194.8 million for prior-year period, reflecting the increase in depreciation and amortization expense, the Heartland integration expenses and the unfavorable effect of fluctuations in foreign currency. Diluted earnings per share were \$0.81 for the 2016 fiscal transition period compared to \$1.49 for the prior-year period.

## Emerging Trends

The payments industry continues to grow worldwide and as a result, certain large payment technology companies, including us, have expanded operations globally by pursuing acquisitions and creating alliances and joint ventures. We expect to continue to expand into new markets internationally or increase our scale and improve our competitiveness in existing markets by pursuing further acquisitions and joint ventures.

We believe that electronic payment transactions will continue to grow and that an increasing percentage of these will be facilitated through emerging technologies. As a result, we expect an increasing portion of our future capital investment will be allocated to support the development of new and emerging technologies; however, we do not expect our aggregate capital spending to increase materially from our current level of spending as a result of this.

We also believe new markets will continue to develop in areas that have been previously dominated by paper-based transactions. We expect industries such as education, government and healthcare, as well as payment types such as recurring payments

and business-to-business payments, to continue to see transactions migrate to electronic-based solutions. We anticipate that the continued development of new services and the emergence of new vertical markets will be a factor in the growth of our business and our revenue in the future.

## Acquisitions

On December 15, 2015, we entered into a merger agreement with Heartland, pursuant to which we merged with Heartland on April 22, 2016 in a transaction valued at \$4.4 billion, including assumed debt of \$0.4 billion. Prior to the merger, Heartland was one of the largest payment services companies in the United States, delivering payment technology services and offering integrated commerce, omnichannel, vertically-oriented software, cloud-based point-of-sale, analytics, marketing, payroll and other solutions that are highly complementary to the services offered by Global Payments. The merger significantly expanded our small and medium-sized enterprise distribution, merchant base and vertical reach in the United States, adding a 1,400-person direct sales force, over 300,000 merchants and \$130 billion in annual payments volume. We are leveraging our scalable, worldwide infrastructure to drive revenue enhancements and technological and operational synergies from the merger. See "Note 2— Acquisitions" in the notes to the accompanying consolidated financial statements for further discussion of our merger with Heartland.

In connection with our merger with Heartland, we entered into an amendment to our existing corporate credit facility to provide for secured financing of up to \$4.78 billion, the incremental proceeds of which were used, among other things, to repay certain portions of Heartland's existing indebtedness and to finance, in part, the cash consideration and the merger-related costs. On October 31, 2016, we further amended our existing corporate credit facility to increase our borrowing capacity and to provide for secured financing of up to \$5.03 billion. See "Liquidity and Capital Resources-Long-Term Debt and Lines of Credit" below for further discussion of our credit facilities.

On June 1, 2015, we acquired certain assets of Certegy Check Services, Inc., a wholly-owned subsidiary of Fidelity National Information Services, Inc. ("FIS"). Under the purchase arrangement, we acquired substantially all of the assets of its gaming business related to licensed gaming operators (the "FIS Gaming Business"), including relationships with gaming clients in approximately 260 locations, for \$237.5 million, funded from borrowings on our revolving credit facility and cash on hand.

On March 25, 2015, we acquired Pay and Shop Limited for €110.2 million in cash (\$118.9 million equivalent as of the acquisition date) funded by borrowings on our revolving credit facility. Pay and Shop Limited, which does business as Realex Payments, is a leading European online payment gateway technology provider based in Dublin, Ireland. This transaction furthers our strategy to provide omni-channel solutions that combine gateway services, payment service provisioning and payment technology services across Europe.

On October 10, 2014, we completed the acquisition of Ezi Holdings Pty Ltd ("Ezidebit") for AUD\$0.6 million in cash (\$266.0 million equivalent as of the acquisition date). This acquisition was funded by a combination of cash on hand and borrowings on our revolving credit facility. Ezidebit is a leading integrated payments company focused on recurring payments verticals in Australia and New Zealand. Ezidebit markets its services through a network of integrated software vendors and direct channels to numerous vertical markets. We acquired Ezidebit to establish a direct distribution channel in Australia and New Zealand and to further enhance our existing integrated solutions offerings.

See "Note 2— Acquisitions" in the notes to the accompanying consolidated financial statements for further discussion of these and other acquisitions.

## Visa Europe

Through certain of our subsidiaries in Europe, we were a member and shareholder of Visa Europe. On June 21, 2016, Visa acquired all of the membership interests in Visa Europe, including ours, upon which we recorded a gain of \$41.2 million included in interest and other income in our consolidated statement of income for the seven months ended December 31, 2016. We received up-front consideration comprised of €33.5 million (\$37.7 million equivalent at June 21, 2016) in cash and Series B and C convertible preferred shares whose initial conversion rate equates to Visa common shares valued at \$22.9 million as of June 21, 2016. However, the preferred shares were assigned a value of zero based on transfer restrictions, Visa's ability to adjust the conversion rate, and the estimation uncertainty associated with those factors. The fair value of the preferred shares was determined using inputs classified as Level 3 within the fair value hierarchy due to the absence of quoted market prices, lack of liquidity and the fact that inputs used to

measure fair value are unobservable and require management's judgment. The preferred shares will convert into Visa common shares at periodic intervals over a 2-year period. Based on the outcome of potential litigation involving Visa Europe in the United Kingdom and elsewhere in Europe, the conversion rate of the preferred shares could be adjusted down such that the number of Visa common shares we ultimately receive could be as low as zero, and approximately €25.6 million (\$28.8 million equivalent at June 21, 2016) of the up-front cash consideration could be refundable. On the third anniversary of the closing of the acquisition by Visa, we will also receive €3.1 million (\$3.5 million at June 21, 2016) of deferred consideration (plus compounded interest at a rate of 4.0% per annum).

## **Results of Operations**

### ***Revenues***

The majority of merchant services revenues is generated by services priced as a percentage of transaction amount or a specified fee per transaction, depending on card type. We also charge other fees based on specific services that are unrelated to the number or value of transactions. These revenues depend upon a number of factors, such as demand for and price of our services, the technological competitiveness of our offerings, our reputation for providing timely and reliable service, competition within our industry and general economic conditions.

In direct merchant acquiring, we provide payment services to merchants and fund settlement either directly, in markets where we have direct membership with the payment networks, or through our relationship with a member financial institution in markets where we are sponsored. Revenues for direct merchant services are recognized in the amount of merchant billing net of interchange. We market our direct merchant services through a variety of sales channels, including a direct sales force, trade associations, agent and enterprise software providers and referral arrangements with value-added resellers, which we generally refer to as "direct distribution." We also sell through our ISO channel, where the ISO receives a share of the merchant profitability in the form of a monthly residual payment, which is reflected as a component of selling, general and administrative expenses in the consolidated statements of income.

In indirect merchant acquiring, the partner, typically a financial institution or an ISO, is our customer. We provide payment services to the indirect customer's merchants, but do not provide sponsorship or funds settlement. We bill the indirect customer fees for transactions and various other services, which are recognized as revenue.

### ***Operating Expenses***

#### *Cost of Service*

Cost of service consists primarily of salaries, wages and related expenses paid to operations and technology-related personnel, including those who monitor our transaction processing systems and settlement functions; assessments and other fees paid to card networks; the cost of transaction processing systems, including third-party services; the cost of network telecommunications capability; depreciation and occupancy costs associated with the facilities performing these functions; amortization of intangible assets and provisions for operating losses.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses consist primarily of salaries, wages, commissions and related expenses paid to sales personnel, customer support functions other than those supporting revenue, administrative employees and management; commissions paid to ISOs, independent contractors and other third parties; other selling expenses; occupancy costs of leased space directly related to these functions; share-based compensation expense and advertising costs.

### ***Operating Income and Operating Margin***

For the purpose of discussing segment operations, we refer to "operating income," which is calculated by subtracting segment direct expenses from segment revenues. Overhead and shared expenses, including share-based compensation, are not allocated to segment operations; they are reported in the caption "Corporate." Similarly, we refer to "operating margin" regarding segment operations, which is calculated by dividing segment operating income by segment revenues.



**Seven Months Ended December 31, 2016 Compared to Seven Months Ended December 31, 2015**

The following table sets forth key selected financial data for the seven months ended December 31, 2016 and 2015, this data as a percentage of total revenues, and the changes between periods in dollars and as a percentage of the prior-period amount. The income statement data for the 2016 fiscal transition period are derived from the audited consolidated financial statements included elsewhere in this Transition Report. The income statement data for the seven months ended December 31, 2015 are derived from our unaudited consolidated financial statements for that period.

<i>(dollar amounts in thousands)</i>	Seven Months Ended December 31,		Seven Months Ended December 31,		Change	% Change
	2016	% of Revenue <sup>(1)</sup>	2015	% of Revenue <sup>(1)</sup>		
<b>Revenues<sup>(2)</sup>:</b>						
North America	\$ 1,650,616	74.9%	\$ 1,227,916	71.0%	\$ 422,700	34.4 %
Europe	403,823	18.3%	380,246	22.0%	23,577	6.2 %
Asia-Pacific	148,457	6.8%	121,908	7.0%	26,549	21.8 %
Total revenues	<u>\$ 2,202,896</u>	<u>100.0%</u>	<u>\$ 1,730,070</u>	<u>100.0%</u>	<u>\$ 472,826</u>	<u>27.3 %</u>
<b>Consolidated operating expenses<sup>(2)</sup>:</b>						
Cost of service	\$ 1,094,593	49.7%	\$ 638,700	36.9%	\$ 455,893	71.4 %
Selling, general and administrative	870,352	39.5%	784,823	45.4%	85,529	10.9 %
Operating expenses	<u>\$ 1,964,945</u>	<u>89.2%</u>	<u>\$ 1,423,523</u>	<u>82.3%</u>	<u>\$ 541,422</u>	<u>38.0 %</u>
<b>Operating income (loss)<sup>(2)</sup>:</b>						
North America	\$ 233,850		\$ 191,185		\$ 42,665	22.3 %
Europe	145,767		157,722		(11,955)	(7.6)%
Asia-Pacific	37,530		29,564		7,966	26.9 %
Corporate <sup>(3)</sup>	(179,196)		(71,924)		(107,272)	149.1 %
Operating income	<u>\$ 237,951</u>	<u>10.8%</u>	<u>\$ 306,547</u>	<u>17.7%</u>	<u>\$ (68,596)</u>	<u>(22.4)%</u>
<b>Operating margin:</b>						
North America	14.2%		15.6%		(1.4)%	
Europe	36.1%		41.5%		(5.4)%	
Asia-Pacific	25.3%		24.3%		1.0 %	

<sup>(1)</sup> Percentage amounts may not sum to the total due to rounding.

<sup>(2)</sup> Revenues, operating expenses, operating income and operating margin reflect the effect of acquired businesses from the respective dates of acquisition. Notably, on April 22, 2016, we merged with Heartland as further discussed in "Note 2 - Acquisitions" in the notes to the accompanying consolidated financial statements.

<sup>(3)</sup> During the seven months ended December 31, 2016, operating loss for Corporate included Heartland integration costs of \$91.6 million, which are included in selling, general and administrative expenses in the consolidated statements of income.

**Revenues**

For the seven months ended December 31, 2016, revenues increased 27.3% to \$2,202.9 million compared to the prior-year period, reflecting growth in each of our operating segments, in spite of the unfavorable effect of fluctuations in foreign currency exchange rates. For the seven months ended December 31, 2016, currency exchange rate fluctuations reduced our revenues by \$35.3 million compared to the prior-year period, calculated by converting revenues for the seven months ended December 31, 2016 in local currencies using exchange rates for the seven months ended December 31, 2015.

*North America Segment.* For the seven months ended December 31, 2016, revenues from our North America segment increased by \$422.7 million, or 34.4%, compared to the prior-year period to \$1,650.6 million primarily due to our merger with Heartland.

*Europe Segment.* For the seven months ended December 31, 2016, revenues from our Europe segment increased by \$23.6 million, or 6.2%, compared to the prior-year period to \$403.8 million due to a joint venture with Erste Group Bank AG ("Erste Group") in Central and Eastern Europe that commenced in June 2016, despite the unfavorable effect of currency fluctuations in Europe of \$34.3 million.

*Asia-Pacific Segment.* For the seven months ended December 31, 2016, revenues from our Asia-Pacific segment increased by \$26.5 million, or 21.8%, compared to the prior-year period to \$148.5 million, primarily due to organic growth.

#### *Operating Expenses*

*Cost of Service.* Cost of service increased by 71.4% to \$1,094.6 million for the seven months ended December 31, 2016 compared to the prior-year period. As a percentage of revenues, cost of service increased to 49.7% for the seven months ended December 31, 2016 compared to 36.9% in the prior year. The increase in cost of service was driven primarily by an increase in the variable costs associated with our revenue growth, including those related to our merger with Heartland, and by additional intangible asset amortization associated with recently acquired businesses of \$145.6 million for the seven months ended December 31, 2016.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by 10.9% to \$870.4 million for the seven months ended December 31, 2016 compared to the prior-year period. As a percentage of revenues, selling, general and administrative expenses decreased to 39.5% for the seven months ended December 31, 2016 compared to 45.4% in the prior year. The increase in selling, general and administrative expenses was primarily due to additional costs to support the growth of our business, including incremental expenses associated with the integration of Heartland. The decrease in selling, general and administrative expenses as a percentage of revenues was primarily due to synergies achieved in general and administrative expenses from the merger with Heartland.

#### *Operating Income and Operating Margin*

*North America Segment.* Operating income in our North America segment increased by 22.3% to \$233.9 million for the seven months ended December 31, 2016 compared to the prior-year period. The increase in operating income was primarily due to revenue growth in our U.S. business, partially offset by expenses associated with the integration of Heartland and additional intangible asset amortization associated with the merger. Operating margin decreased by 1.4 percentage points for the seven months ended December 31, 2016 compared to the prior-year period primarily as a result of the incremental merger-related expenses.

*Europe Segment.* Operating income in our Europe segment decreased by 7.6% to \$145.8 million for the seven months ended December 31, 2016 compared to the prior-year period, including the effect of unfavorable currency fluctuations of \$19.6 million. Operating margin decreased 5.4 percentage points for the seven months ended December 31, 2016 compared to the prior-year period. The decreases in operating income and operating margin were primarily driven by the effect of unfavorable currency fluctuations.

*Asia-Pacific Segment.* Operating income in our Asia segment increased by 26.9% to \$37.5 million for the seven months ended December 31, 2016 compared to the prior-year period. Operating margin increased 1.0 percentage point for the seven months ended December 31, 2016 compared to the prior-year period. The increases in operating income and operating margin were primarily due to organic revenue growth.

*Corporate.* Corporate expenses increased by \$107.3 million for the seven months ended December 31, 2016 compared to the prior-year period, primarily due to the merger with Heartland and incremental expenses of \$91.6 million associated with its integration.

#### *Other Income/Expense, Net*

Interest and other income for the seven months ended December 31, 2016 increase primarily due to a gain of \$41.2 million recorded in connection with the sale of our membership interests in Visa Europe.

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Interest and other expense increased by \$76.8 million for the seven months ended December 31, 2016 compared to the prior-year period primarily due to an increase in interest expense incurred resulting from an increase in the outstanding borrowings to fund the merger with Heartland.

*Provision for Income Taxes*

Our effective income tax rates were 20.6% and 25.3%, respectively, for the seven months ended December 31, 2016 and 2015. The decrease in our effective income tax rate was primarily due to a higher percentage of income generated in international jurisdictions with lower tax rates (primarily as a result of the merger-related expenses incurred in the United States).

***Fiscal Year Ended May 31, 2016 Compared to Fiscal Year Ended May 31, 2015***

The following table sets forth key selected financial data for the fiscal years ended May 31, 2016 and 2015, this data as a percentage of total revenues, and the changes between fiscal years in dollars and as a percentage of the prior year amount.

<i>(dollar amounts in thousands)</i>	<b>2016</b>	<b>% of Revenue<sup>(1)</sup></b>	<b>2015</b>	<b>% of Revenue<sup>(1)</sup></b>	<b>Change</b>	<b>% Change</b>
<b>Revenues<sup>(2)</sup>:</b>						
North America	\$ 2,052,623	70.8%	\$ 1,968,890	71.0%	\$ 83,733	4.3 %
Europe	631,900	21.8%	615,966	22.2%	15,934	2.6 %
Asia-Pacific	213,627	7.4%	188,862	6.8%	24,765	13.1 %
Total revenues	<u>\$ 2,898,150</u>	<u>100.0%</u>	<u>\$ 2,773,718</u>	<u>100.0%</u>	<u>\$ 124,432</u>	<u>4.5 %</u>
<b>Consolidated operating expenses<sup>(2)</sup>:</b>						
Cost of service	\$ 1,147,639	39.6%	\$ 1,022,107	36.8%	\$ 125,532	12.3 %
Selling, general and administrative	1,325,567	45.7%	1,295,014	46.7%	30,553	2.4 %
Operating expenses	<u>\$ 2,473,206</u>	<u>85.3%</u>	<u>\$ 2,317,121</u>	<u>83.5%</u>	<u>\$ 156,085</u>	<u>6.7 %</u>
<b>Operating income (loss)<sup>(2)</sup>:</b>						
North America	\$ 307,626		\$ 293,139		\$ 14,487	4.9 %
Europe	244,837		240,014		4,823	2.0 %
Asia-Pacific	50,743		39,697		11,046	27.8 %
Corporate <sup>(3)</sup>	(178,262)		(116,253)		(62,009)	53.3 %
Operating income	<u>\$ 424,944</u>	<u>14.7%</u>	<u>\$ 456,597</u>	<u>16.5%</u>	<u>\$ (31,653)</u>	<u>(6.9)%</u>
<b>Operating margin:</b>						
North America	15.0%		14.9%		0.1 %	
Europe	38.7%		39.0%		(0.3)%	
Asia-Pacific	23.8%		21.0%		2.8 %	

<sup>(1)</sup> Percentage amounts may not sum to the total due to rounding.

<sup>(2)</sup> Revenues, operating expenses, operating income and operating margin reflect the effect of acquired businesses from the respective dates of acquisition. Notably, on April 22, 2016, we merged with Heartland as further discussed in "Note 2 - Acquisitions" in the notes to the accompanying consolidated financial statements.

<sup>(3)</sup> During the fiscal year ended May 31, 2016, operating loss for Corporate included costs of \$51.3 million incurred in connection with our merger with Heartland. These merger-related costs are included in selling, general and administrative expenses in the consolidated statements of income.

*Revenues*

For the fiscal year ended May 31, 2016, revenues increased by 4.5% to \$2,898.2 million compared to the prior year, reflecting growth in each of our operating segments, in spite of the unfavorable effect of fluctuations in foreign currency exchange rates. For the fiscal year ended May 31, 2016, currency exchange rate fluctuations reduced our revenues by \$117.0 million compared to the prior year, calculated by converting revenues for the year ended May 31, 2016 in local currencies using exchange rates for the year ended May 31, 2015.

*North America Segment.* For the fiscal year ended May 31, 2016, revenues from our North America segment increased by \$83.7 million, or 4.3%, compared to the prior year to \$2,052.6 million. The increase was due to growth of \$124.4 million, primarily in our U.S. business, partially offset by the unfavorable effect of currency fluctuations in Canada of \$40.7 million. The growth in revenues was primarily due to additional revenues from our merger with Heartland and the acquisition of the FIS Gaming Business as well as organic growth in our direct distribution business.

*Europe Segment.* For the fiscal year ended May 31, 2016, revenues from our Europe segment increased by \$15.9 million, or 2.6%, compared to the prior year to \$631.9 million. The increase reflects revenue growth in local currencies, generally due to an increase in the number of card transactions and volume growth in the United Kingdom and Spain, partially offset by the unfavorable effect of currency fluctuations in Europe of \$62.6 million.

*Asia-Pacific Segment.* For the fiscal year ended May 31, 2016, revenues from our Asia-Pacific segment increased by \$24.8 million, or 13.1%, compared to the prior year to \$213.6 million. The increase was primarily due to additional revenues of \$29.6 million associated with recent acquisitions and organic growth, partially offset by the unfavorable effect of currency fluctuations.

*Operating Expenses*

*Cost of Service.* Cost of service increased by 12.3% to \$1,147.6 million during the fiscal year ended May 31, 2016 compared to the prior year. As a percentage of revenues, cost of service increased to 39.6% for fiscal year ended May 31, 2016 compared to 36.8% in the prior year, driven primarily by an increase in the variable costs associated with our revenue growth. The increase in cost of service as a percentage of revenues is due to additional intangible asset amortization of \$41.1 million related to acquisitions.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by 2.4% to \$1,325.6 million during the fiscal year ended May 31, 2016 compared to the prior year. As a percentage of revenues, selling, general and administrative expenses decreased to 45.7% for fiscal year ended May 31, 2016 from 46.7% in the prior year. The increase in selling, general and administrative expenses was due to additional costs to support the growth of our business, including expenses of \$51.3 million associated with our merger with Heartland.

*Operating Income and Operating Margin*

*North America Segment.* Operating income in our North America segment increased by 4.9% to \$307.6 million for the fiscal year ended May 31, 2016 compared to the prior year despite the effect of unfavorable currency fluctuations of \$20.5 million. The operating margin was 15.0% and 14.9% for the fiscal years ended May 31, 2016 and 2015, respectively. The increase in operating income was primarily due to revenue growth in our U.S. business, partially offset by additional intangible asset amortization related to our acquisitions and the effect of unfavorable currency fluctuations.

*Europe Segment.* Operating income in our Europe segment increased by 2.0% to \$244.8 million for the fiscal year ended May 31, 2016 compared to the prior year despite the effect of unfavorable currency fluctuations of \$19.7 million. The operating margin was 38.7% and 39.0% for the fiscal years ended May 31, 2016 and 2015, respectively. The increase in operating income was primarily driven by revenue growth, partially offset by the effect of unfavorable currency fluctuations.

*Asia-Pacific Segment.* Operating income in our Asia segment increased by 27.8% to \$50.7 million for the fiscal year ended May 31, 2016 compared to the prior year despite the effect of unfavorable currency fluctuations in the Asia-Pacific region of \$3.4 million. The operating margin was 23.8% and 21.0% for the fiscal years ended May 31, 2016 and 2015, respectively. The increases in operating income and operating margin were due to incremental revenues from the acquisition and subsequent organic growth of Ezidebit, which generates a higher operating margin than our legacy business in the region.

*Corporate.* Corporate expenses increased to \$178.3 million for the fiscal year ended May 31, 2016 compared to the prior year due primarily to expenses of \$51.3 million associated with our merger with Heartland.

*Other Income/Expense, Net*

Interest and other expense increased by \$24.9 million for the fiscal year ended May 31, 2016 compared to the prior year primarily due to an increase in borrowings to fund our merger with Heartland.

*Provision for Income Taxes*

The provision for income taxes decreased by \$37.3 million for the fiscal year ended May 31, 2016 compared to the prior year due to a decrease in income before income taxes, largely due to expenses of \$51.3 million in the U.S. associated with our merger with Heartland, and a lower effective income tax rate. The decrease in our effective income tax rate from 25.9% to 19.6% during the fiscal year ended May 31, 2016 was primarily due to a higher percentage of the earnings before income taxes derived from foreign operations with lower income tax rates (primarily as a result of the merger-related expenses incurred in the United States) as well as the elimination of certain net deferred tax liabilities associated with undistributed earnings from Canada as a result of management's plans to reinvest these earnings outside of the United States indefinitely.

**Fiscal Year Ended May 31, 2015 Compared to Fiscal Year Ended May 31, 2014**

The following table shows key selected financial data for the fiscal years ended May 31, 2015 and 2014, this data as a percentage of total revenues, and the changes between fiscal years in dollars and as a percentage of the prior year amount.

<i>(dollar amounts in thousands)</i>	2015	% of Revenue <sup>(1)</sup>	2014	% of Revenue <sup>(1)</sup>	Change	% Change
<b>Revenues<sup>(2)</sup>:</b>						
North America	\$ 1,968,890	71.0%	\$ 1,808,992	70.8%	\$ 159,898	8.8%
Europe	615,966	22.2%	587,463	23.0%	28,503	4.9%
Asia-Pacific	188,862	6.8%	157,781	6.2%	31,081	19.7%
Total revenues	<u>\$ 2,773,718</u>	<u>100.0%</u>	<u>\$ 2,554,236</u>	<u>100.0%</u>	<u>\$ 219,482</u>	<u>8.6%</u>
<b>Consolidated operating expenses<sup>(2)</sup>:</b>						
Cost of service	\$ 1,022,107	36.8%	\$ 952,225	37.3%	\$ 69,882	7.3%
Selling, general and administrative	1,295,014	46.7%	1,196,512	46.8%	98,502	8.2%
Operating expenses	<u>\$ 2,317,121</u>	<u>83.5%</u>	<u>\$ 2,148,737</u>	<u>84.1%</u>	<u>\$ 168,384</u>	<u>7.8%</u>
<b>Operating income (loss)<sup>(2)</sup>:</b>						
North America	\$ 293,139		\$ 272,251		\$ 20,888	7.7%
Europe	240,014		209,334		30,680	14.7%
Asia-Pacific	39,697		30,845		8,852	28.7%
Corporate	(116,253)		(106,931)		(9,322)	8.7%
Operating income	<u>\$ 456,597</u>	<u>16.5%</u>	<u>\$ 405,499</u>	<u>15.9%</u>	<u>\$ 51,098</u>	<u>12.6%</u>
<b>Operating margin for segments:</b>						
North America	14.9%		15.0%		(0.1)%	
Europe	39.0%		35.6%		3.4 %	
Asia-Pacific	21.0%		19.5%		1.5 %	

<sup>(1)</sup> Percentage amounts may not sum to the total due to rounding.

<sup>(2)</sup> Revenues, operating expenses, operating income and operating margin reflect the effect of acquired businesses from the respective dates of acquisition.

## Revenues

For the fiscal year ended May 31, 2015, revenues increased by 8.6% to \$2,773.7 million compared to the prior year, reflecting growth in most of our markets, partially offset by the unfavorable effect of fluctuations in foreign currency exchange rates. For the fiscal year ended May 31, 2015, currency exchange rate fluctuations decreased our revenues by \$78.4 million compared to the prior year, calculated by converting revenues for the fiscal year ended May 31, 2015 in local currencies using the prior year rates.

*North America Segment.* For the fiscal year ended May 31, 2015, revenues from our North America segment increased by 8.8% to \$1,968.9 million compared to the prior year despite the unfavorable effect of currency fluctuations in Canada. U.S. revenue growth was driven by growth in our direct distribution channels, including our integrated solutions business, which reflects the addition of Payment Processing, Inc. ("PayPros").

For the fiscal year ended May 31, 2015, revenues in Canada decreased by 2.3% to \$313.0 million due to the unfavorable effect of changes in exchange rates, which outweighed revenue growth achieved in local currency resulting from stable business performance and selective pricing initiatives.

*Europe Segment.* For the fiscal year ended May 31, 2015, revenues from our Europe segment increased by \$28.5 million, or 4.9%, to \$616.0 million compared to the prior year. The increase reflected growth in local currencies primarily due to growth in the number of card transactions and volume growth, partially offset by the unfavorable effect of currency fluctuations of \$50.7 million.

*Asia-Pacific Segment.* For the fiscal year ended May 31, 2015, revenues from our Asia-Pacific segment increased by \$31.1 million, or 19.7%, to \$188.9 million compared to the prior year primarily due to the acquisition of Ezidebit.

## Operating Expenses

*Cost of Service.* Cost of service increased by 7.3% during the fiscal year ended May 31, 2015 compared to the prior year. As a percentage of revenues, cost of service decreased to 36.8% for fiscal year 2015 compared to 37.3% in the prior year. The increase in cost of service was driven primarily by an increase in the variable costs associated with revenue growth and additional intangible asset amortization and other incremental cost of service associated with our acquisitions of PayPros and Ezidebit, partially offset by favorable effects of changes in exchange rates.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased 8.2% during the fiscal year ended May 31, 2015 compared to the prior year. As a percentage of revenues, selling, general and administrative expenses was 46.7% for the fiscal year ended May 31, 2015 and 46.8% for the prior year. The increase in selling, general and administrative expenses was primarily due to an increase in commission payments to third-party sales partners and incremental costs related to our acquisitions of PayPros and Ezidebit.

## Operating Income and Operating Margin

*North America Segment.* Operating income in our North America segment increased by 7.7% to \$293.1 million for the fiscal year ended May 31, 2015 compared to the prior year despite the effect of unfavorable currency fluctuations in Canada. The increase in operating income was primarily due to growth in our U.S. direct distribution channels, including the addition of PayPros to our integrated solutions business, partially offset by intangible asset amortization and other incremental operating costs associated with PayPros and the unfavorable effect of exchange rate fluctuations in Canada. The operating margin was 14.9% and 15.0% for the fiscal years ended May 31, 2015 and 2014, respectively.

*Europe Segment.* Operating income in our Europe segment increased by 14.7% to \$240.0 million for the fiscal year ended May 31, 2015 compared to the prior year due to the effects of revenue growth, in spite of the unfavorable effect of currency fluctuations of \$13.9 million. The operating margin improved to 39.0% for the fiscal year ended May 31, 2015 compared to the prior year.

*Asia-Pacific Segment.* Operating income in our Asia-Pacific segment increased by 28.7% to \$39.7 million for the fiscal year ended May 31, 2015 compared to the prior year. The operating margin increased to 21.0% for the fiscal year ended May 31, 2015

compared to 19.5% for the prior year. The increases in operating income and operating margin for the Asia-Pacific segment were largely due to our acquisition of Ezidebit.

*Corporate.* Our corporate expenses increased by 8.7% to \$116.3 million for the fiscal year ended May 31, 2015 compared to the prior year primarily due to settlement of a legal claim in Europe during the fiscal year ended May 31, 2015 and a credit of \$7.0 million associated with the fiscal 2012 processing system intrusion recorded in the fiscal year ended May 31, 2014.

*Operating Income*

During the fiscal year ended May 31, 2015, our consolidated operating income increased by 12.6% to \$456.6 million from \$405.5 million in the prior year. The increase was primarily due to revenue growth in all reportable segments partially offset by higher variable costs of services associated with revenue growth, higher intangible asset amortization and other incremental operating costs associated with PayPros and Ezidebit and the unfavorable effect of exchange rate fluctuations. Operating income for the fiscal year ended May 31, 2014 also reflects the effect of the processing system intrusion credit of \$7.0 million.

*Other Income/Expense, Net*

Other expense, net, increased to \$39.5 million for the fiscal year ended May 31, 2015 compared to \$28.1 million in the prior year. The increase was primarily due to a \$10.5 million increase in interest expense on our corporate credit facility and settlement lines of credit, resulting from an increase in average balances outstanding under those debt facilities, and an increase in equity method losses on investments in unconsolidated entities, partially offset by a reversal of interest expense of \$3.6 million that had been accrued related to an unrecognized tax benefit. As of May 31, 2015, we eliminated the liability for an unrecognized tax benefit and reduced interest and other expense in the year ended May 31, 2015 in our accompanying consolidated statement of income. See "Note 9 - Income Tax" in the notes to the accompanying consolidated financial statements for further discussion.

During the fiscal year ended May 31, 2014, we recorded a loss on extinguishment of debt of \$2.1 million in connection with the refinancing of our corporate credit facility. In addition, during the fiscal year ended May 31, 2014, we made a final dividend payment to HSBC Asia in the amount of \$3.3 million related to a redeemable noncontrolling interest that HSBC Asia held in Global Payments Asia-Pacific, a subsidiary of the Company. The dividend was reflected as interest expense in our consolidated statements of income. During the fiscal year ended May 31, 2014, we recorded a \$2.1 million gain in connection with the sale of 50% of our subsidiary in Brazil.

*Provision for Income Taxes*

Our effective tax rates were 25.9% and 28.5% for the fiscal years ended May 31, 2015 and 2014, respectively. The effective tax rates for the fiscal year ended May 31, 2014 reflects the reduction to the carrying amount of certain U.K. deferred tax assets due to enacted corporate tax rate reductions in the United Kingdom of 3 percentage points. Our effective tax rate differs from the U.S. statutory rate primarily due to income generated in international jurisdictions with lower tax rates.

**Liquidity and Capital Resources**

In the ordinary course of our business, a significant portion of our liquidity comes from operating cash flows. Cash flow from operations is used to make planned capital investments in our business, to pursue acquisitions that meet our corporate objectives, to pay dividends, to pay down debt and to repurchase shares of our common stock. Accumulated cash balances are invested in high-quality, marketable short-term instruments.

Our capital plan objectives are to support our operational needs and strategic plan for long-term growth while maintaining a low cost of capital. We use our financing, such as our revolving credit facility and our term loans, for general corporate purposes and to fund acquisitions. In addition, specialized lines of credit are also used in certain of our markets to fund merchant settlement prior to receipt of funds from the card network. We regularly evaluate our liquidity and capital position relative to cash requirements, and we may elect to raise additional funds in the future, either through the issuance of debt, equity or otherwise.

On December 15, 2015, we entered into a merger agreement with Heartland in a cash-and-stock transaction, as previously described under "Acquisitions" in this discussion and analysis and in "Note 2— Acquisitions" in the notes to the accompanying

consolidated financial statements. On February 26, 2016, we amended our existing corporate credit facility to provide for secured financing of up to \$4.78 billion, the incremental proceeds of which were used, among other things, to repay certain portions of Heartland's existing indebtedness and to finance, in part, the cash consideration and the merger-related costs. On October 31, 2016, we further amended our corporate credit facility to, among other things, increase our borrowing capacity by \$250 million to a total of \$5.03 billion and reduce the interest rate margins on the outstanding borrowings under our existing corporate credit facility, as more fully described below in this discussion and analysis under "Long-Term Debt and Lines of Credit" and in "Note 7—Long-Term Debt and Lines of Credit" in the notes to the accompanying consolidated financial statements.

At December 31, 2016, we had cash and cash equivalents totaling \$1,162.8 million. Of this amount, we consider \$388.8 million to be available for general purposes, which does not include the following: (1) settlement-related cash balances, (2) funds held as collateral for merchant losses ("Merchant Reserves") and (3) funds held for customers. Settlement-related cash balances represent funds that we hold when the incoming amount from the card networks precedes the funding obligation to the merchant. Settlement-related cash balances are not restricted; however, these funds are generally paid out in satisfaction of settlement processing obligations the following day. At December 31, 2016, our cash and cash equivalents included \$287.3 million for settlement-related cash balances. Merchant Reserves serve as collateral to minimize contingent liabilities associated with any losses that may occur under the merchant agreement. At December 31, 2016, our cash and cash equivalents included \$165.2 million related to Merchant Reserves. While this cash is not restricted in its use, we believe that designating this cash to collateralize Merchant Reserves strengthens our fiduciary standing with our member sponsors and is in accordance with the guidelines set by the card networks. Funds held for customers and the corresponding liability that we record in customer deposits include amounts collected prior to remittance on our customers' behalf. At December 31, 2016, cash and cash equivalents included funds held for customers of \$298.6 million.

Our available cash balance at December 31, 2016 included \$275.7 million of cash held by foreign subsidiaries whose earnings are considered indefinitely reinvested outside the United States. These cash balances reflect our capital investments in these subsidiaries and the accumulation of cash flows generated by their operations, net of cash flows used to service debt locally and fund acquisitions outside of the United States. We believe that we are able to maintain a sufficient level of liquidity for our domestic operations and commitments without repatriation of the earnings of these foreign subsidiaries. If we were to repatriate some or all of the cash held by such foreign subsidiaries, we do not believe that the associated income tax liabilities would have a significant effect on our liquidity.

Operating activities provided net cash of \$502.8 million during the 2016 fiscal transition period, which was primarily attributable to net income of \$137.7 million adjusted for non-cash items, including depreciation and amortization expense of \$247.6 million, and an increase in working capital of \$114.8 million. Fluctuations in working capital are affected by timing of month-end and transaction volume.

Operating activities provided net cash of \$585.0 million and \$424.7 million, respectively, during the fiscal years ended May 31, 2016 and 2015. The increase in cash flow from operating activities of \$160.3 million during fiscal 2016 was primarily due to a decrease in the change in net settlement processing assets of \$296.9 million, partially offset by payments of acquisition-related costs of approximately \$80 million associated with our merger with Heartland, including costs of \$40 million incurred by Heartland that were included in liabilities we assumed as of the acquisition date and paid by us during the fourth quarter of the fiscal year ended May 31, 2016. Fluctuations in settlement processing assets and obligations are largely due to timing of month-end and transaction volume.

Net cash used in investing activities was \$86.7 million during the 2016 fiscal transition period, including net cash of \$35.5 million used primarily to fund the establishment of our joint venture with Erste Group Bank AG in Central and Eastern Europe. We made capital expenditures of \$88.9 million during the 2016 fiscal transition period. In addition, on June 21, 2016, in exchange for all of our membership interest in VE, Visa transferred up-front consideration, including cash of approximately \$3.5 million (\$37.7 million equivalent at June 21, 2016), to us.

Net cash used in investing activities was \$2,127.2 million and \$440.9 million, respectively, during the fiscal years ended May 31, 2016 and 2015, including net cash of \$2,035.7 million and \$359.2 million, respectively, to fund business acquisitions, including our merger with Heartland during the fiscal year ended May 31, 2016. We made capital expenditures of \$91.6 million, \$92.6 million and \$81.4 million during the fiscal years ended May 31, 2016, 2015 and 2014, respectively. During the year ending December 31, 2017, we expect capital expenditures for property and equipment, including internal-use capitalized software development costs, to approximate \$160 million.



Net cash used in financing activities for the 2016 fiscal transition period was \$265.7 million. Financing activities provided net cash of \$1,965.5 million and \$141.4 million, respectively, during the fiscal years ended May 31, 2016 and 2015.

During the 2016 fiscal transition period, net repayments of principal under long-term borrowing arrangements were \$82.2 million, reflecting repayments of outstanding borrowings under our corporate credit facility. During the fiscal year ended May 31, 2016, we borrowed \$1,780 million under our corporate credit facility, which was amended in connection with our merger with Heartland. The incremental proceeds from the new term loans were used, among other things, to repay certain portions of Heartland's existing indebtedness and to finance, in part, the cash consideration and the merger-related costs. In July 2015, we refinanced our then-existing corporate credit facility and used the proceeds of approximately \$2.0 billion to repay the then-outstanding balances on our previously existing term loans and revolving credit facility. These activities are further discussed below under "Long-Term Debt and Lines of Credit."

In addition, we used cash of \$178.2 million, \$136.0 million and \$372.4 million during the 2016 fiscal transition period and during the fiscal years ended May 31, 2016 and 2015, respectively, to repurchase shares of our common stock.

We believe that our current level of cash and borrowing capacity under our long-term debt and lines of credit described below, together with future cash flows from operations will be sufficient to meet the needs of our existing operations and planned requirements for the foreseeable future.

#### ***Long-Term Debt and Lines of Credit***

*July 2015 Refinancing.* On July 31, 2015, we amended and restated our existing term loan agreement and our existing revolving credit agreement to provide for a \$1.75 billion term loan (the "Term A Loan") and a \$1.25 billion revolving credit facility (the "Revolving Credit Facility"), each with a syndicate of financial institutions. We used the proceeds of approximately \$2.0 billion to repay the then-outstanding balances on our previously existing term loan and revolving credit facility.

*February 2016 Refinancing.* On February 26, 2016, in anticipation of our merger with Heartland, we amended and restated our term loan agreement and revolving credit agreement (collectively, the "2016 Credit Facility Agreement") to, among other things, (i) accelerate our repayment schedule for Term A Loan, effective as of February 26, 2016, and (ii) provide security for Term A Loan and the Revolving Credit Facility and modify the applicable financial covenants and interest rate margins. In addition, the 2016 Credit Facility Agreement provided for a new \$735 million delayed draw term loan facility (the "Delayed Draw Facility") and a new \$1.045 billion term B loan (the "Term B Loan"). The Delayed Draw Facility and Term B Loan were issued on April 22, 2016 in connection with our merger with Heartland, resulting in total financing of approximately \$4.78 billion as contemplated by the debt commitment letter that was executed in connection with the Heartland merger agreement. The incremental proceeds from the new loans were used, among other things, to repay certain portions of Heartland's existing indebtedness and to finance, in part, the cash consideration and the merger-related costs.

*October 2016 Refinancing.* On October 31, 2016, we amended the 2016 Credit Facility Agreement (as amended, the "Amended 2016 Credit Facility Agreement"), which (i) increased our borrowing capacity under the Delayed Draw Facility (which we now refer to as the "Term A-2 Loan") by \$750 million to \$1.48 billion, (ii) decreased our outstanding borrowings under the Term B Loan by \$500 million to \$542 million, (iii) extended the maturity dates for the Term A Loan, the Term A-2 Loan and the Revolving Credit Facility and (iv) decreased the interest rate margin on our term loans and Revolving Credit Facility. The Amended 2016 Credit Facility Agreement provides for secured financing of up to \$5.03 billion comprised of (i) the \$1.75 billion Term A Loan, (ii) the \$1.48 billion Term A-2 Loan, (iii) a \$542 million Term B Loan (iv) a \$1.25 billion Revolving Credit Facility.

The Amended 2016 Credit Facility Agreement also reduced the leverage-based margin on our term loans and Revolving Credit Facility. We expect this refinancing to yield \$10 million to \$12 million of annual interest expense savings, net of additional anticipated expense associated with future interest rate hedging activities.

The Amended 2016 Credit Facility Agreement provides for an interest rate, at our election, of either London Interbank Offered Rate ("LIBOR") or a base rate, in each case plus a leverage-based margin. As of December 31, 2016, the interest rates on the Term A Loan, the Term A-2 Loan and the Term B Loan were 3.02%, 2.97% and 3.27%, respectively.

As of December 31, 2016, the outstanding balance on the term loans was \$3,728.9 million. The Term A Loan must be repaid in equal quarterly installments of \$43.8 million through August 2021, with the remaining principal balance due upon maturity in October 2021. The Term A-2 Loan must be repaid in quarterly installments of \$1.7 million, the first installment of which was made in August 2016, increasing to quarterly installments of \$8.6 million in August 2018 and ending in August 2021, with the remaining balance due upon maturity in October 2021. The Term B Loan must be repaid in quarterly installments of \$1.4 million, the first installment commencing in December 2016, ending in March 2023, with the remaining principal balance due upon maturity in April 2023.

As of December 31, 2016, the outstanding balance on the Revolving Credit Facility was \$756.0 million. The Amended 2016 Credit Facility Agreement allows us to issue standby letters of credit of up to \$100 million in the aggregate under the Revolving Credit Facility. Outstanding letters of credit under the Revolving Credit Facility reduce the amount of borrowings available to us. Borrowings available to us under the Revolving Credit Facility are further limited by the covenants described below under "Compliance with Covenants." The total available commitments under the Revolving Credit Facility at December 31, 2016 were \$446.3 million. As of December 31, 2016, the interest rate on the Revolving Credit Facility was 2.97%. In addition, we are required to pay a quarterly commitment fee on the unused portion of the Revolving Credit Facility. The Revolving Credit Facility expires in October 2021.

The portion of debt issuance costs related to the Revolving Credit Facility are included in other noncurrent assets, and the portion of debt issuance costs related to the term loans is reported as a reduction to the carrying amount of the term loans. Debt issuance costs are amortized as an adjustment to interest expense over the terms of the respective facilities.

#### *Settlement Lines of Credit*

We have lines of credit with banks in the United States and Canada as well as several countries in Europe and in the Asia-Pacific region where we do business. The lines of credit, which are restricted for use in funding settlement, generally have variable interest rates and are subject to annual review. The lines of credit are generally denominated in local currency but may, in some cases, facilitate borrowings in multiple currencies. For certain of our lines of credit, the available credit is increased by the amount of cash we have on deposit in specific accounts with the lender. Accordingly, the amount of the outstanding line of credit may exceed the stated credit limit. As of December 31, 2016, a total of \$51.0 million of cash on deposit was used to determine the available credit.

As of December 31, 2016, we had \$392.1 million outstanding under these lines of credit with additional capacity of \$882.6 million to fund settlement. The weighted-average interest rate on these borrowings was 1.9% at December 31, 2016. During the 2016 fiscal transition period, the maximum and average outstanding balances under these lines of credit were \$691.7 million and \$365.9 million, respectively.

#### *Compliance with Covenants*

The Amended 2016 Credit Facility Agreement contains customary affirmative and restrictive covenants, including, among others, financial covenants based on our leverage and fixed charge coverage ratios, as defined in the agreement. Financial covenants require a leverage ratio no greater than (i) 4.75 to 1.00 as of the end of any fiscal quarter ending during the period from September 1, 2016 through February 28, 2017, (ii) 4.50 to 1.00 as of the end of any fiscal quarter ending during the period from March 1, 2017 through August 31, 2017, (iii) 4.25 to 1.00 as of the end of any fiscal quarter ending during the period from September 1, 2017 through February 28, 2018 and (iv) 4.00 to 1.00 as of the end of any fiscal quarter ending thereafter. The fixed charge coverage ratio is required to be no less than 2.25 to 1.00. The Amended 2016 Credit Facility Agreement and settlement lines of credit also include various other covenants that are customary in such borrowings. The Amended 2016 Credit Facility Agreement includes covenants, subject in each case to exceptions and qualifications that may restrict certain payments, including, in certain circumstances, repurchasing our common stock and paying cash dividends in excess of our current rate of \$0.01 per share per quarter.

The Amended 2016 Credit Facility Agreement also includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations to be immediately due and payable. We were in compliance with all applicable covenants as of December 31, 2016 and for the 2016 fiscal transition period.

See "Note 7 - Long-Term Debt and Lines of Credit" in the notes to the accompanying consolidated financial statements for further discussion of our borrowing arrangements.

#### **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 services described under "Critical Accounting Policies" below.

#### **BIN/ICA Agreements**

We have entered into sponsorship or depository and processing agreements with certain banks. These agreements allow us to use the banks' identification numbers, referred to as Bank Identification Number ("BIN") for Visa transactions and Interbank Card Association ("ICA") number for MasterCard transactions, to clear credit card transactions through Visa and MasterCard. Certain of such agreements contain financial covenants, and we were in compliance with all such covenants as of December 31, 2016.

#### **Commitments and Contractual Obligations**

The following table summarizes our contractual obligations and commitments as of December 31, 2016:

	Payments Due by Future Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	5+ Years
	(in thousands)				
Long-term debt	\$ 4,484,894	\$ 187,311	\$ 415,648	\$ 3,368,023	\$ 513,912
Interest on long-term debt <sup>(1)</sup>	620,363	140,374	248,471	209,412	22,106
Settlement lines of credit	392,072	392,072	—	—	—
Operating lease obligations	283,068	36,885	63,962	44,506	137,715
Purchase obligations <sup>(2)</sup>	245,739	72,732	77,825	58,799	36,383

<sup>(1)</sup> Interest on long-term debt is based on rates effective and amounts borrowed as of December 31, 2016. The estimated effect of interest rate swaps is included in interest on long-term debt. Since the contractual rates for our long-term debt and settlements on our interest rate swaps are variable, actual cash payments may differ from the estimates provided.

<sup>(2)</sup> Includes estimate of future payments for noncancelable contractual obligations related to service arrangements with suppliers for fixed or minimum amounts.

The table above excludes other obligations that we may have, such as employee benefit obligations and other noncurrent liabilities reflected in our consolidated balance sheet, because the timing of the related payments is not determinable or because there is no contractual obligation associated with the underlying obligations.

#### **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, which often require the judgment of management in the selection and application of certain accounting principles and methods. We consider the following accounting policies to be critical to understanding our consolidated financial statements because the application of these policies requires significant judgment on the part of management, and as a result, actual future developments may be different from those expected at the time that we make these critical judgments. We have discussed these critical accounting policies with the audit committee of the board of directors.

Accounting estimates necessarily require subjective determinations about future events and conditions. Therefore, the following descriptions of our critical accounting policies 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 - Basis of

Presentation and Summary of Significant Accounting Policies" of the notes to the accompanying consolidated financial statements and the risk factors contained in "Item 1A - Risk Factors" of this Transition Report.

### **Goodwill**

We test goodwill for impairment at the reporting unit level annually as of January 1 and more often if an event occurs or circumstances change that would indicate the fair value of a reporting unit is below its carrying amount. We have the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. The option of whether or not to perform a qualitative assessment is made annually and may vary by reporting unit.

Factors we consider in the qualitative assessment include general macroeconomic conditions, industry and market conditions, cost factors, overall financial performance of our reporting units, events or changes affecting the composition or carrying amount of the net assets of our reporting units, sustained decrease in our share price, and other relevant entity-specific events. If we elect to bypass the qualitative assessment or if we determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, a two-step quantitative test would be required. In the first step, the reporting unit's carrying amount, including goodwill, would be compared to its fair value. If the carrying amount of the reporting unit is greater than its fair value, step two must be performed. Step two measures the impairment loss, if any, by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill would be determined by assigning the fair value of the reporting unit to all the assets and liabilities of that unit (including unrecognized intangibles) as if the reporting unit had been acquired in a business combination. The excess of the fair value over the amounts assigned to the assets and liabilities of the reporting unit would be the implied fair value of the goodwill. The excess of the carrying amount over the implied fair value of the goodwill would be the impairment loss.

Our assessment of qualitative factors involves significant judgments about expected future business performance and general market conditions. In a quantitative assessment, we estimate the fair value of the reporting unit using a combination of the income approach and the market approach. This requires various assumptions about a reporting unit's future financial results and cost of capital, including discount rates.

We have seven reporting units: North America merchant services, U.K. merchant services, Asia-Pacific merchant services, Central and Eastern Europe merchant services, Russia merchant services, Spain merchant services and Heartland. As of January 1, 2017, we elected to perform a qualitative assessment of impairment for each of our reporting units, except Heartland for which we performed a quantitative assessment. We determined on the basis of qualitative factors that the fair values of the reporting units for which we performed a qualitative assessment were not "more likely than not" less than their respective carrying amounts. Based on a quantitative assessment, we determined that the goodwill of Heartland was not impaired. We believe that the fair values of our reporting units are substantially in excess of their carrying amounts.

### **Intangible and Long-lived Assets**

Other intangible assets primarily represent customer-related intangible assets (such as customer lists and merchant contracts), contract-based intangible assets (such as non-compete agreements, referral agreements and processing rights), acquired technology and trademarks associated with acquisitions. These assets are amortized over their estimated useful lives. The useful lives for customer-related intangible assets are determined based primarily on forecasted cash flows, which include estimates for the revenues, expenses, and customer attrition associated with the assets. The useful lives of contract-based intangible assets are equal to the terms of the agreements. The useful lives of amortizable trademarks and trade names are based on our plans to phase out the trademarks and trade names in the applicable markets. Acquired technology is amortized on a straight-line basis over its estimated useful life.

Amortization for most of our customer-related intangible assets is calculated using an accelerated method. 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 amount of the asset to arrive at the amortization expense for that period. If the cash flow patterns that we experience differ significantly from our initial estimates, we adjust the amortization schedule prospectively. 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 did not make any significant adjustments to the amortization schedules of our intangible assets during the 2016 fiscal transition period.

We believe that our accelerated method better approximates the expected distribution of cash flows generated by our acquired customer relationships. We use the straight-line method of amortization for our contract-based intangibles and amortizable trademarks.

We regularly evaluate whether events and circumstances have occurred that indicate the carrying amount of property and equipment and finite-life intangible assets may not be recoverable. When factors indicate that these long-lived assets should be evaluated for possible impairment, we assess the potential impairment by determining whether the carrying amount of such long-lived assets will be recovered through the future undiscounted cash flows expected from use of the asset and its eventual disposition. If the carrying amount of the asset is determined not to be recoverable and exceeds its fair value, an impairment loss is recorded, measured as the difference between the fair value and the carrying amount. Fair values are determined based on quoted market prices or discounted cash flow analysis as applicable. We regularly evaluate whether events and circumstances have occurred that indicate the useful lives of property and equipment and finite-life intangible assets may warrant revision.

#### ***Capitalization of Internal-Use Software***

We develop software that is used in providing services to customers. Capitalization of internal-use software, primarily associated with operating platforms, occurs when we have completed the preliminary project stage, management authorizes the project, management commits to funding the project, it is probable the project will be completed and the project will be used to perform the function intended. The preliminary project stage consists of the conceptual formulation of alternatives, the evaluation of alternatives, the determination of existence of needed technology and the final selection of alternatives. Costs incurred during the preliminary project stage are expensed as incurred. Currently unforeseen circumstances in software development, such as a significant change in the manner in which the software is intended to be used, obsolescence or a significant reduction in revenues due to merchant attrition, could require us to implement alternative plans with respect to a particular effort, which could result in the impairment of previously capitalized software development costs. The carrying amount of internal-use software, including work in progress, at December 31, 2016 was \$264.8 million. Costs capitalized during the 2016 fiscal transition period and the years ended May 31, 2016, 2015 and 2014 totaled \$37.7 million, \$36.5 million, \$35.1 million, and \$39.1 million, respectively. Internal-use software is amortized over its estimated useful life, which is typically 2 to 10 years, in a manner that best reflects the pattern of economic use of the assets.

#### ***Income Taxes***

We determine our provision for income taxes using management's judgments, estimates and the interpretation and application of complex tax laws in each of the jurisdictions in which we operate. Judgment is also required in assessing the timing and amounts of deductible and taxable items. These differences result in deferred tax assets and liabilities in our consolidated balance sheet. We believe our tax return positions are fully supportable; however, we recognize the benefit for tax positions only when it is more likely than not that the position will be sustained based on its technical merits. Issues raised by a tax authority may be resolved at an amount different than the related benefit recognized. When facts and circumstances change (including an effective settlement of an issue or statute of limitations expiration), the effect is recognized in the period of change. A portion of the unrecognized tax benefits that exist at December 31, 2016 would affect our provision for income taxes in the future if recognized. Judgment is required to determine whether or not some portion or all of our deferred tax assets will not be realized. To the extent we determine that we will not realize the benefit of some or all of our deferred tax assets, then these deferred tax assets are adjusted through our provision for income taxes in the period in which this determination is made.

#### ***Reserve for Operating Losses***

We experience losses in our card processing services when we are unable to collect amounts from merchant customers for any charges properly reversed by the card issuing financial institution. When we are not able to collect these amounts from the merchants due to merchant fraud, insolvency, bankruptcy or any other reason, we may be liable for the 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 experience check guarantee losses when we are unable to collect the full amount of a guaranteed check from the checkwriter. We refer to both merchant credit losses and check guarantee losses as "operating losses."

We record an estimated liability for operating losses comprised of estimated known losses and estimated incurred but not reported losses. Estimated known losses arise from specific instances of, for example, merchant bankruptcies, closures or fraud of

which we are aware at the balance sheet date but for which the ultimate amount of associated loss will not be determined until after the balance sheet date. Estimated known loss accruals are recorded when it is probable that we have incurred a loss and the loss is reasonably estimable. Estimated known losses are calculated at the merchant level based on chargebacks received to date, processed volume, and historical chargeback ratios. The estimate is reduced for the value of any collateral that we hold. Accruals for estimated known losses are evaluated periodically and adjusted as appropriate based on actual loss experience. Incurred but not reported losses result from transactions that we process before the balance sheet date for which we have not yet received chargeback notification. We estimate incurred but not reported losses by applying historical loss ratios to our direct merchant credit card and signature debit card volumes processed. Historically, this estimation process has been materially accurate.

For the 2016 fiscal transition period and for the years ended May 31, 2016, 2015 and 2014, the provision for merchant losses was \$4.6 million, \$3.7 million, \$4.9 million, and \$8.7 million, respectively. A 10% increase or decrease in our provision for merchant losses as a percentage of processed volume for the 2016 fiscal transition period would have resulted in a decrease or increase in pretax income of \$0.5 million. Further, if our provision for merchant losses as a percentage of processed volume for the 2016 fiscal transition period had equaled our actual merchant losses as a percentage of processed volume for the same prior year period, our income before income taxes would have increased by \$0.7 million. As of December 31, 2016, May 31, 2016 and 2015, \$2.3 million, \$2.5 million and \$1.3 million, respectively, were recorded as the estimated liability for merchant losses and were 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. We record a liability for estimated losses on returned checks and estimated incurred but not reported losses. We estimate the loss on returned checks by applying historical collection rates to our claims receivable balance. We estimate incurred but not reported losses by applying historical loss ratios to the face value of our guaranteed checks. For the 2016 fiscal transition period and for the years ended May 31, 2016, 2015 and 2014, we recorded provisions for check guarantee losses of \$15.2 million, \$22.8 million, \$9.6 million, and \$11.9 million, respectively. A 10% increase in our projected loss rate for the 2016 fiscal transition period would have resulted in a decrease in income before income taxes of \$1.5 million. Further, if our guarantee loss as a percentage of guarantee volume for the 2016 fiscal transition period had equaled our guarantee loss as a percentage of guarantee volume for the same prior year period, our income before income taxes would have increased by \$2.8 million. As of December 31, 2016, May 31, 2016 and 2015, the liabilities for check guarantee losses were \$5.8 million, \$4.9 million and \$2.7 million, respectively, which were included as a valuation allowance against claims receivable in the accompanying consolidated balance sheets.

We derive our projected loss rate assumptions primarily based on a rolling six-to-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 the following: 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 economies in which we operate at a regional or national level and the related impact on our customers.

***Effect of New Accounting Pronouncements - Recently Issued Pronouncements Not Yet Adopted***

Refer to "Note 1 - Basis of Presentation and Summary of Significant Accounting Policies" of the notes to the accompanying consolidated financial statements for information on recently issued accounting pronouncements not yet adopted.

## ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Foreign Currency Exchange Rate Risk

Certain of our operations are conducted in foreign currencies. Consequently, a portion of our revenues and expenses may be affected by fluctuations in foreign currency exchange rates. We have not historically hedged our translation risk on foreign currency exposure, but we may do so in the future. For the 2016 fiscal transition period, currency rate fluctuations reduced our revenues by \$35.3 million and our operating income by \$19.8 million as compared to the prior year, calculated by converting current period revenues and expenses in local currency using the prior period rates. For the year ended May 31, 2016, currency rate fluctuations reduced our revenues by \$117.0 million and our operating income by \$43.6 million as compared to the prior fiscal year, calculated by converting revenues and expenses for fiscal 2016 in local currency using prior-year period rates.

Generally, the functional currency of our various subsidiaries is their local currency. We are exposed to currency fluctuations on transactions that are not denominated in the functional currency. Gains and losses on such transactions are included in determining net income for the period. We seek to mitigate our foreign currency risk through timely settlement of transactions and cash flow matching, when possible. For the 2016 fiscal transition period and the years ended May 31, 2016, 2015 and 2014, our transaction gains and losses were insignificant.

Additionally, we are affected by currency fluctuations in our funds settlement process on merchant payment, chargeback and card network settlement transactions that are not denominated in the currency of the underlying credit or debit card transaction. Gains and losses on these transactions are included in revenues for the period.

We are also affected by fluctuations in exchange rates on our investments in foreign operations. Relative to our net investment in foreign operations, the assets and liabilities of subsidiaries whose functional currency is a foreign currency are translated at the period-end rate of exchange. The resulting translation adjustment is recorded as a component of other comprehensive income and is included in shareholders' equity. Transaction gains and losses on intercompany balances of a long-term investment nature are also recorded as a component of other comprehensive income.

### Interest Rate Risk

We are exposed to market risk related to changes in interest rates on our long-term debt and cash investments. We invest our excess cash in securities that we believe are highly liquid and marketable in the short term. These investments earn a floating rate of interest and are not held for trading or other speculative purposes.

We have term loans and a revolving credit facility that we use for general corporate purposes, as well as various lines of credit that we use to fund settlement in certain of our markets. Interest rates on these debt instruments and settlement lines of credit are based on market rates and fluctuate accordingly. As of December 31, 2016, \$4.9 billion was outstanding under these variable-rate debt arrangements and settlement lines of credit.

The interest earned on our cash investments and the interest paid on our debt are based on variable interest rates; therefore, the exposure of our net income to a change in interest rates is partially mitigated as an increase in rates would increase both interest income and interest expense, and a reduction in rates would decrease both interest income and interest expense. Under our current policies, we may selectively use derivative instruments, such as interest rate swaps or forward rate agreements, to manage all or a portion of our exposure to interest rate changes. We have interest rate swaps that reduce a portion of our exposure to market interest rate risk on our LIBOR-based debt as discussed in "Note 7 - Long-Term Debt and Lines of Credit" in the notes to our accompanying consolidated financial statements.

Based on balances outstanding under variable-rate debt agreements and cash investment balances at December 31, 2016, a hypothetical increase of 50 basis points in applicable interest rates as of December 31, 2016 would increase our annual interest expense by approximately \$19.4 million and increase our annual interest income by approximately \$2.6 million.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Global Payments Inc.  
Atlanta, Georgia

We have audited the internal control over financial reporting of Global Payments Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 the internal control over financial reporting to future periods are subject to the risk that the 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also 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 seven months ended December 31, 2016 of the Company and our report dated February 28, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company changing its fiscal year end from May 31 to December 31.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia

February 28, 2017



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Global Payments Inc.  
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of Global Payments Inc. and subsidiaries (the "Company") as of December 31, 2016, May 31, 2016 and May 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the seven months ended December 31, 2016 and for each of the three years in the period ended May 31, 2016. 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 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 December 31, 2016, May 31, 2016 and May 31, 2015, and the results of their operations and their cash flows for the seven months ended December 31, 2016 and for each of the three years in the period ended May 31, 2016, 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 a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its fiscal year end from May 31 to December 31.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia

February 28, 2017

**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

	Seven Months Ended December 31,	Year Ended May 31,		
	2016	2016	2015	2014
Revenues	\$ 2,202,896	\$ 2,898,150	\$ 2,773,718	\$ 2,554,236
Operating expenses:				
Cost of service	1,094,593	1,147,639	1,022,107	952,225
Selling, general and administrative	870,352	1,325,567	1,295,014	1,196,512
	<u>1,964,945</u>	<u>2,473,206</u>	<u>2,317,121</u>	<u>2,148,737</u>
Operating income	<u>237,951</u>	<u>424,944</u>	<u>456,597</u>	<u>405,499</u>
Interest and other income	44,382	5,284	4,949	13,663
Interest and other expense	(108,989)	(69,316)	(44,436)	(41,812)
	<u>(64,607)</u>	<u>(64,032)</u>	<u>(39,487)</u>	<u>(28,149)</u>
Income before income taxes	173,344	360,912	417,110	377,350
Provision for income taxes	(35,661)	(70,695)	(107,995)	(107,398)
Net income	<u>137,683</u>	<u>290,217</u>	<u>309,115</u>	<u>269,952</u>
Less: Net income attributable to noncontrolling interests	(12,752)	(18,551)	(31,075)	(24,666)
Net income attributable to Global Payments	<u>\$ 124,931</u>	<u>\$ 271,666</u>	<u>\$ 278,040</u>	<u>\$ 245,286</u>
Earnings per share attributable to Global Payments:				
Basic earnings per share	<u>\$ 0.81</u>	<u>\$ 2.05</u>	<u>\$ 2.07</u>	<u>\$ 1.70</u>
Diluted earnings per share	<u>\$ 0.81</u>	<u>\$ 2.04</u>	<u>\$ 2.06</u>	<u>\$ 1.69</u>

*See Notes to Consolidated Financial Statements.*

**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

	Seven Months Ended December 31,	Year End May 31,		
	2016	2016	2015	2014
Net income	\$ 137,683	\$ 290,217	\$ 309,115	\$ 269,952
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(92,229)	(55,858)	(220,641)	17,034
Income tax benefit related to foreign currency translation adjustments	—	—	12,152	3,133
Unrealized gains (losses) on hedging activities	5,532	(12,859)	(10,116)	—
Reclassification of losses on hedging activities to interest expense	4,222	8,240	3,958	—
Income tax (expense) benefit related to hedging activities	(3,639)	1,738	2,284	—
Other, net of tax	1,030	(848)	(450)	173
Other comprehensive (loss) income	(85,084)	(59,587)	(212,813)	20,340
Comprehensive income	52,599	230,630	96,302	290,292
Less: comprehensive income attributable to noncontrolling interests	(4,335)	(19,022)	(2,478)	(31,720)
Comprehensive income attributable to Global Payments	\$ 48,264	\$ 211,608	\$ 93,824	\$ 258,572

*See Notes to Consolidated Financial Statements.*

**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	December 31, 2016	May 31, 2016	May 31, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,162,779	\$ 1,044,728	\$ 650,739
Accounts receivable, net of allowances for doubtful accounts of \$1,092, \$353 and \$468, respectively	275,032	281,612	202,390
Claims receivable, net of allowances for doubtful accounts of \$5,786, \$4,868 and \$2,684, respectively	8,202	6,799	548
Settlement processing assets	1,546,854	1,336,326	2,394,822
Prepaid expenses and other current assets	123,139	181,848	41,416
Total current assets	3,116,006	2,851,313	3,289,915
Goodwill	4,807,594	4,829,405	1,491,833
Other intangible assets, net	2,085,292	2,264,708	560,136
Property and equipment, net	526,370	493,678	374,143
Deferred income taxes	15,789	22,719	30,428
Other noncurrent assets	113,299	48,129	32,846
Total assets	\$ 10,664,350	\$ 10,509,952	\$ 5,779,301
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Settlement lines of credit	\$ 392,072	\$ 378,436	\$ 592,629
Current portion of long-term debt	177,785	135,542	61,784
Accounts payable and accrued liabilities	804,887	696,414	326,875
Settlement processing obligations	1,477,212	1,220,315	2,033,900
Total current liabilities	2,851,956	2,430,707	3,015,188
Long-term debt	4,260,827	4,379,744	1,678,283
Deferred income taxes	676,472	744,862	202,855
Other noncurrent liabilities	95,753	77,235	19,422
Total liabilities	7,885,008	7,632,548	4,915,748
Commitments and contingencies			
Equity:			
Preferred stock, no par value; 5,000,000 shares authorized and none issued	—	—	—
Common stock, no par value; 200,000,000 shares authorized; 152,185,616 issued and outstanding at December 31, 2016; 154,421,585 issued and outstanding at May 31, 2016 and 130,557,676 issued and outstanding at May 31, 2015	—	—	—
Paid-in capital	1,816,278	1,976,715	148,742
Retained earnings	1,137,230	1,015,811	795,226
Accumulated other comprehensive loss	(322,717)	(246,050)	(185,992)
Total Global Payments shareholders' equity	2,630,791	2,746,476	757,976
Noncontrolling interests	148,551	130,928	105,577
Total equity	2,779,342	2,877,404	863,553
Total liabilities and equity	\$ 10,664,350	\$ 10,509,952	\$ 5,779,301

*See Notes to Consolidated Financial Statements.*

**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Seven Months Ended December 31,	Year Ended May 31,		
	2016	2016	2015	2014
Cash flows from operating activities:				
Net income	\$ 137,683	\$ 290,217	\$ 309,115	\$ 269,952
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of property and equipment	53,242	74,192	64,918	60,124
Amortization of acquired intangibles	194,329	113,689	72,587	61,945
Share-based compensation expense	18,707	30,809	21,056	29,793
Provision for operating losses and bad debts	24,074	27,202	14,506	20,574
Amortization of capitalized customer acquisition costs	14,982	1,776	—	—
Deferred income taxes	(33,523)	(18,162)	81,079	(1,799)
Gain on sale of investments	(41,150)	—	—	—
Other, net	19,701	7,481	3,073	(1,484)
Changes in operating assets and liabilities, net of the effects of acquisitions:				
Accounts receivable	2,189	(14,542)	1,248	(18,539)
Claims receivable	(16,607)	(29,078)	(9,317)	(11,569)
Settlement processing assets and obligations, net	35,599	218,061	(78,794)	(241,431)
Prepaid expenses and other assets	30,604	(23,176)	14,743	23,788
Capitalized customer acquisition costs	(58,161)	(11,962)	—	—
Accounts payable and other liabilities	121,140	(81,506)	(69,513)	2,744
Net cash provided by operating activities	502,809	585,001	424,701	194,098
Cash flows from investing activities:				
Business, intangible and other asset acquisitions, net of cash acquired	(35,487)	(2,035,657)	(359,187)	(426,524)
Capital expenditures	(88,913)	(91,591)	(92,550)	(81,411)
Net proceeds from sale of investments	37,717	—	—	—
Other	—	—	10,816	6,265
Net cash used in investing activities	(86,683)	(2,127,248)	(440,921)	(501,670)
Cash flows from financing activities:				
Net borrowings (repayments) on settlement lines of credit	20,582	(206,009)	198,884	252,667
Proceeds from issuance of long-term debt	1,299,000	6,078,230	2,496,842	2,690,000
Principal payments of long-term debt	(1,381,161)	(3,691,608)	(2,148,907)	(2,260,597)
Payment of debt issuance costs	(9,279)	(63,382)	—	(5,961)
Repurchase of common stock	(178,165)	(135,954)	(372,387)	(447,307)
Proceeds from stock issued under share-based compensation plans	6,093	8,480	22,550	31,727
Common stock repurchased - share-based compensation plans	(20,390)	(12,236)	(15,690)	(5,681)
Tax benefit from share-based compensation plans	13,017	7,889	5,176	6,475
Purchase of subsidiary shares from noncontrolling interest	—	(7,550)	—	—
Proceeds from sale of subsidiary shares to noncontrolling interest	—	16,374	—	—
Distributions to noncontrolling interests	(12,365)	(23,308)	(39,753)	(36,670)
Dividends paid	(3,069)	(5,439)	(5,340)	(5,757)
Net cash (used in) provided by financing activities	(265,737)	1,965,487	141,375	218,896
Effect of exchange rate changes on cash	(32,338)	(29,251)	(56,288)	(9,922)
Increase (decrease) in cash and cash equivalents	118,051	393,989	68,867	(98,598)
Cash and cash equivalents, beginning of the period	1,044,728	650,739	581,872	680,470
Cash and cash equivalents, end of the period	\$ 1,162,779	\$ 1,044,728	\$ 650,739	\$ 581,872

*See Notes to Consolidated Financial Statements.*

**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in thousands, except per share data)

	Number of Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Global Payments Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at May 31, 2016	154,422	\$ 1,976,715	\$ 1,015,811	\$ (246,050)	\$ 2,746,476	\$ 130,928	\$ 2,877,404
Net income			124,931		124,931	12,752	137,683
Other comprehensive loss, net of tax				(76,667)	(76,667)	(8,417)	(85,084)
Stock issued under share-based compensation plans	549	6,093			6,093		6,093
Common stock repurchased - share-based compensation plans	(267)	(20,532)			(20,532)		(20,532)
Tax benefit from employee share-based compensation		13,017			13,017		13,017
Share-based compensation expense		18,707			18,707		18,707
Contribution of subsidiary shares to noncontrolling interest related to a business combination						25,653	25,653
Distributions to noncontrolling interests						(12,365)	(12,365)
Repurchase of common stock	(2,518)	(177,722)	(443)		(178,165)		(178,165)
Dividends paid (\$0.02 per share)			(3,069)		(3,069)		(3,069)
Balance at December 31, 2016	<u>152,186</u>	<u>\$ 1,816,278</u>	<u>\$ 1,137,230</u>	<u>\$ (322,717)</u>	<u>\$ 2,630,791</u>	<u>\$ 148,551</u>	<u>\$ 2,779,342</u>

*See Notes to Consolidated Financial Statements.*

**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in thousands, except per share data)

	Number of Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Global Payments Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at May 31, 2015	130,558	\$ 148,742	\$ 795,226	\$ (185,992)	\$ 757,976	\$ 105,577	\$ 863,553
Net income			271,666		271,666	18,551	290,217
Other comprehensive (loss) income				(60,058)	(60,058)	471	(59,587)
Stock issued under share-based compensation plans	591	8,480			8,480		8,480
Common stock repurchased - share-based compensation plans	(220)	(12,193)			(12,193)		(12,193)
Tax benefit from share-based compensation plans		7,889			7,889		7,889
Share-based compensation expense		30,809			30,809		30,809
Issuance of common stock in connection with a business combination	25,645	1,879,458			1,879,458		1,879,458
Purchase of subsidiary shares from noncontrolling interest		(11)			(11)	(7,539)	(7,550)
Sale of subsidiary shares to noncontrolling interest						16,374	16,374
Distributions to noncontrolling interests						(23,308)	(23,308)
Contribution of subsidiary shares to noncontrolling interest related to a business combination		3,853			3,853	20,802	24,655
Repurchase of common stock	(2,152)	(90,312)	(45,642)		(135,954)		(135,954)
Dividends paid (\$0.04 per share)			(5,439)		(5,439)		(5,439)
Balance at May 31, 2016	154,422	\$ 1,976,715	\$ 1,015,811	\$ (246,050)	\$ 2,746,476	\$ 130,928	\$ 2,877,404

*See Notes to Consolidated Financial Statements.*

**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in thousands, except per share data)

	Number of Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Global Payments Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at May 31, 2014	137,692	\$ 183,023	\$ 815,980	\$ (1,776)	\$ 997,227	\$ 135,572	\$ 1,132,799
Net income			278,040		278,040	31,075	309,115
Other comprehensive loss				(184,216)	(184,216)	(28,597)	(212,813)
Stock issued under share-based compensation plans	2,065	22,550			22,550		22,550
Common stock repurchased - share-based compensation plans	(197)	(7,435)			(7,435)		(7,435)
Tax benefit from share-based compensation plans		5,176			5,176		5,176
Share-based compensation expense		21,056			21,056		21,056
Distributions to noncontrolling interest						(39,753)	(39,753)
Noncontrolling interest from business combination						7,280	7,280
Repurchase of common stock	(9,002)	(75,628)	(293,454)		(369,082)		(369,082)
Dividends paid (\$0.04 per share)			(5,340)		(5,340)		(5,340)
Balance at May 31, 2015	<u>130,558</u>	<u>\$ 148,742</u>	<u>\$ 795,226</u>	<u>\$ (185,992)</u>	<u>\$ 757,976</u>	<u>\$ 105,577</u>	<u>\$ 863,553</u>

*See Notes to Consolidated Financial Statements.*



**GLOBAL PAYMENTS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in thousands, except per share data)

	Number of Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Global Payments Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at May 31, 2013	150,852	\$ 202,396	\$ 958,751	\$ (15,062)	\$ 1,146,085	\$ 140,522	\$ 1,286,607
Net income			245,286		245,286	24,666	269,952
Other comprehensive income				13,286	13,286	7,054	20,340
Stock issued under share-based compensation plans	3,017	31,727			31,727		31,727
Common stock repurchased - share-based compensation plans	(503)	(14,498)			(14,498)		(14,498)
Tax benefit from share-based compensation plans		6,351			6,351		6,351
Share-based compensation expense		29,793			29,793		29,793
Distributions to noncontrolling interest						(36,670)	(36,670)
Repurchase of common stock	(15,674)	(72,746)	(382,300)		(455,046)		(455,046)
Dividends paid (\$0.04 per share)			(5,757)		(5,757)		(5,757)
Balance at May 31, 2014	<u>137,692</u>	<u>\$ 183,023</u>	<u>\$ 815,980</u>	<u>\$ (1,776)</u>	<u>\$ 997,227</u>	<u>\$ 135,572</u>	<u>\$ 1,132,799</u>

*See Notes to Consolidated Financial Statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business, consolidation and presentation**— We are a leading worldwide provider of payment technology services delivering innovative solutions to our customers globally. Our technologies, partnerships and employee expertise enable us to provide a broad range of services that allow our customers to accept various payment types. We distribute our services across a variety of channels to merchants and partners in 30 countries throughout North America, Europe, the Asia-Pacific region and in Brazil and operate in three reportable segments: North America, Europe and Asia-Pacific.

We were incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from our former parent company in 2001. Including our time as part of our former parent company, we have been in the payment technology services business since 1967. Global Payments Inc. and its consolidated subsidiaries are referred to collectively as "Global Payments," the "Company," "we," "our" or "us," unless the context requires otherwise.

These consolidated financial statements include our accounts and those of our majority-owned subsidiaries and all intercompany balances and transactions have been eliminated in consolidation. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and present our financial position, results of operations and cash flows. On July 27, 2016, the board of directors authorized a change in our fiscal year end from May 31 to December 31. As a result, the period consisting of the seven months ended December 31, 2016 is considered the "2016 fiscal transition period."

**Merger with Heartland**— On December 15, 2015, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Heartland Payment Systems, Inc. ("Heartland"), pursuant to which we merged with Heartland in a cash-and-stock transaction which we completed on April 22, 2016. See "Note 2—Acquisitions" for further information.

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

**Revenue recognition**— We provide payment solutions for credit cards, debit cards, electronic payments and check-related services. Revenue is recognized when such services are performed. Revenue for services provided directly to merchants is recorded net of interchange fees charged by card issuing banks. Our primary business model provides payment services directly to merchants as our customers. We also provide similar services indirectly through financial institutions and a limited number of independent sales organizations ("ISOs"). The majority of merchant services revenue is generated on services priced as a percentage of transaction value or a specified fee per transaction, depending on card type. We also charge other fees based on specific services that are unrelated to the number of transactions or the transaction value. Revenue from credit cards and signature debit cards is generally based on a percentage of transaction value along with other related fees, while revenue from PIN-based debit cards is typically based on a fee per transaction.

Certain of our integrated payments solutions arrangements contain multiple elements, such as equipment, perpetual licenses, software-as-a-service, maintenance, installation and training. We allocate consideration to each element based on the relative-selling-price method. For certain arrangements, customers pay in advance, but revenue is recognized over the service period. In multiple element arrangements where more-than-incidental software elements are included, the entire amount of revenue under the arrangement is deferred until all elements have been delivered or objective evidence of the fair value of the undelivered items can be established. The amounts paid by in advance by customers and amounts deferred for software arrangements are reflected as unearned revenue in the consolidated balance sheets with the portion estimated to be recognized as revenue within the next twelve months reflected in current liabilities and the remainder reflected in other noncurrent liabilities.

**Cash and cash equivalents**— Cash and cash equivalents include cash on hand and all liquid investments with a maturity of three months or less when purchased. We consider certain portions of our cash and cash equivalents to be unrestricted but not available for general purposes. The amount of cash that we consider to be available for general purposes does not include the following: (1) settlement-related cash balances, (2) funds held as collateral for merchant losses ("Merchant Reserves") and (3)

funds held for customers. Settlement-related cash balances represent funds that we hold when the incoming amount from the card networks precedes the funding obligation to the merchant. Settlement-related cash balances are not restricted; however, these funds are generally paid out in satisfaction of settlement processing obligations the following day. Merchant Reserves serve as collateral to minimize contingent liabilities associated with any losses that may occur under the merchant agreement. We record a corresponding liability in settlement processing assets and settlement processing obligations in our consolidated balance sheet. While this cash is not restricted in its use, we believe that designating this cash as Merchant Reserves strengthens our fiduciary standing with financial institutions that sponsor us and is in accordance with guidelines set by the card networks. See "Note 3 - Settlement Processing Assets and Obligations" and discussion below for further information. Funds held for customers and the corresponding liability that we record in customer deposits include amounts collected prior to remittance on our customers' behalf.

Settlement processing assets and obligations— Settlement processing assets and obligations represent intermediary balances arising in our settlement process for direct merchants. In accordance with Accounting Standards Codification ("ASC") Subtopic 210-20, *Offsetting*, we apply offsetting to our settlement processing assets and obligations where a right of setoff exists. See "Note 3 - Settlement Processing Assets and Obligations" for further information

Reserve for operating losses— Our merchant customers are liable for any charges or losses that occur under the merchant agreement. We experience losses in our card processing services when we are unable to collect amounts from merchant customers for any charges properly reversed by the card issuing financial institutions. When we are not able to collect these amounts from the merchants due to merchant fraud, insolvency, bankruptcy or any other reason, we may be liable for the reversed charges. We require cash deposits, guarantees, letters of credit and other types of collateral from certain merchants to minimize any such contingent liability, and we also utilize a number of systems and procedures to manage merchant risk. We experience check guarantee losses when we are unable to collect the full amount of a guaranteed check from the checkwriter. We refer to both merchant credit losses and check guarantee losses as "operating losses."

We record an estimated liability for operating losses comprised of estimated known losses and estimated incurred but not reported losses. Estimated known losses arise from specific instances of, for example, merchant bankruptcies, closures or fraud of which we are aware at the balance sheet date but for which the ultimate amount of associated loss will not be determined until after the balance sheet date. Estimated known loss accruals are recorded when it is probable that we have incurred a loss and the loss is reasonably estimable. Estimated known losses are calculated at the merchant level based on chargebacks received to date, processed volume, and historical chargeback ratios. The estimate is reduced for any collateral that we hold. Accruals for estimated known losses are evaluated periodically and adjusted as appropriate based on actual loss experience. Incurred but not reported losses result from transactions that we process before the balance sheet date for which we have not yet received chargeback notification. We estimate incurred but not reported losses by applying historical loss ratios to our direct merchant credit card and signature debit card volumes processed. The estimated known losses and the estimated incurred but not reported losses are subject to the risk that actual amounts may differ significantly from estimates recorded.

As of December 31, 2016, May 31, 2016 and 2015, the estimated liability for operating losses from merchant card processing services was \$2.3 million, \$2.5 million and \$1.3 million, respectively, and was included in settlement processing obligations in the consolidated balance sheets. For the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015 and 2014, the provision for merchant losses was \$4.6 million, \$3.7 million, \$4.9 million and \$8.7 million, respectively, and was included in cost of service in the consolidated statements of income.

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 always recovered 100% of the guaranteed checks. We record a liability for estimated losses on returned checks and estimated incurred but not reported losses. We estimate the loss on returned checks by applying historical collection rates to our claims receivable balance. We estimate incurred but not reported losses by applying historical loss ratios to the face value of our guaranteed checks. As of December 31, 2016, May 31, 2016 and 2015, the liabilities for check guarantee losses were \$5.8 million, \$4.9 million and \$2.7 million, respectively, which are included as a valuation allowance against claims receivable in the consolidated balance sheets. For the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015 and 2014, we recorded related expenses of \$15.2 million, \$22.8 million, \$9.6 million and \$11.9 million, respectively, which were included in cost of service in the consolidated statements of income. The estimated check returns and recovery amounts are subject to the risk that actual amounts returned and recovered in the future may differ significantly from the estimated valuation allowance.

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

*Capitalized customer acquisition costs*— Capitalized customer acquisition costs, which are included in other noncurrent assets, consist of (1) up-front signing bonus payments made to certain salespersons for the establishment of certain of our new merchant relationships and (2) a deferred acquisition cost representing the estimated cost of buying out the residual commissions of certain vested salespersons. Capitalized customer acquisition costs represent incremental, direct customer acquisition costs that are recoverable through merchant profitability. The capitalized customer acquisition costs are amortized using a method which approximates a proportional revenue approach over the initial term of the related merchant contract.

Up-front signing bonuses paid for certain new accounts are based on the estimated profitability for the first year of the merchant contract. The signing bonus, amount capitalized, and related amortization are adjusted after the first year to reflect the actual profitability generated by the merchant contract during that year. The deferred customer acquisition cost asset is accrued over the first year of merchant processing, consistent with the build-up in the accrued buyout liability, as described below.

We evaluate the capitalized customer acquisition costs for impairment on an annual basis by comparing, on a pooled basis by vintage month of origination, the expected future net cash flows from underlying merchant relationships to the carrying amount of the capitalized customer acquisition costs. If the estimated future net cash flows are lower than the recorded carrying amount, indicating an impairment of the value of the capitalized customer acquisition costs, the impairment loss would be charged to operations. Based on our evaluation, we determined that no impairment of capitalized customer acquisition costs had occurred as of December 31, 2016.

*Property and equipment*— Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method, except for certain technology assets discussed below. Leasehold improvements are amortized over the lesser of the remaining term of the lease and the useful life of the asset.

We develop software that is used to provide services to customers. Capitalization of internal-use software, primarily associated with operating platforms, occurs when we have completed the preliminary project stage, management authorizes the project, management commits to funding the project, and it is probable the project will be completed and used to perform the function intended. The preliminary project stage consists of the conceptual formulation of alternatives, the evaluation of alternatives, the determination of existence of needed technology and the final selection of alternatives. Costs incurred during the preliminary project stage are expensed as incurred. Internal-use software is amortized over its estimated useful life, which is typically 2 to 10 years, in a manner that best reflects the pattern of economic use of the assets.

*Goodwill*— We test goodwill for impairment at the reporting unit level annually as of January 1 and more often if an event occurs or circumstances change that indicate the fair value of a reporting unit is below its carrying amount. We have the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. The option of whether or not to perform a qualitative assessment is made annually and may vary by reporting unit.

Factors we consider in the qualitative assessment include general macroeconomic conditions, industry and market conditions, cost factors, overall financial performance of our reporting units, events or changes affecting the composition or carrying amount of the net assets of our reporting units, sustained decrease in our share price, and other relevant entity-specific events. If we elect to bypass the qualitative assessment or if we determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, a two-step quantitative test would be required.

We have seven reporting units: North America merchant services, U.K. merchant services, Asia-Pacific merchant services, Central and Eastern Europe merchant services, Russia merchant services, Spain merchant services and Heartland. As of January 1, 2017, we elected to perform a qualitative assessment of impairment for each of our reporting units, except Heartland for which we performed a quantitative assessment. We determined on the basis of qualitative factors that the fair values of the reporting units for which we performed a qualitative assessment were not more likely than not less than their respective carrying amounts. Based on a quantitative assessment, we determined that the goodwill of Heartland was not impaired. We believe that the fair values of our reporting units are substantially in excess of their carrying amounts.

*Other intangible assets*— Other intangible assets primarily represent customer-related intangible assets (such as customer lists and merchant contracts), contract-based intangible assets (such as noncompete agreements, referral agreements and processing rights), acquired technologies, trademarks and trade names associated with acquisitions. These assets are amortized over their estimated useful lives. The useful lives for customer-related intangible assets are determined based primarily on forecasted cash flows, which include estimates for the revenues, expenses, and customer attrition associated with the assets. The useful lives of contract-based intangible assets are equal to the terms of the agreements. The useful lives of amortizable trademarks and trade names are based on our plans to use the trademarks and trade names in the applicable markets. Acquired technology is amortized on a straight-line basis over its estimated useful life.

Amortization for most of our customer-related intangible assets is calculated using an accelerated method. 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 acquisition-date fair 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 amount of the asset to arrive at the amortization expense for that period. If the cash flow patterns that we experience differ significantly from our initial estimates, we adjust the amortization schedule prospectively. These cash flow patterns are derived using certain assumptions and cost allocations due to a significant number of asset interdependencies that exist in our business. We believe that our accelerated method reflects the expected pattern of the benefit to be derived from the acquired customer relationships.

We use the straight-line method of amortization for our contract-based intangibles, amortizable trademarks and trade names and acquired technologies.

*Impairment of long-lived assets*— We regularly evaluate whether events and circumstances have occurred that indicate the carrying amount of property and equipment and finite-life intangible assets may not be recoverable. When factors indicate that these long-lived assets should be evaluated for possible impairment, we assess the potential impairment by determining whether the carrying amount of such long-lived assets will be recovered through the future undiscounted cash flows expected from use of the asset and its eventual disposition. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market prices or discounted cash flow analysis as applicable. We regularly evaluate whether events and circumstances have occurred that indicate the useful lives of property and equipment and finite-life intangible assets may warrant revision. The carrying amounts of our long-lived assets, including property and equipment and finite-life intangible assets, were not impaired at December 31, 2016, May 31, 2016 or May 31, 2015.

*Accrued buyout liability*— Certain of our salespersons are paid residual commissions based on the profitability generated by certain merchants. We have the right, but not the obligation, to buy out some or all of these commissions and intend to do so periodically. Such purchases of the commissions are at a fixed multiple of the last 12 months' commissions. Because of our intent and ability to execute purchases of the residual commissions, and the mutual understanding between us and our salespersons, we have accounted for this deferred compensation arrangement pursuant to the substantive nature of the plan. We therefore record the amount that we would have to pay (the "settlement cost") to buy out non-servicing related commissions in their entirety from vested salespersons, and an estimated amount for unvested salespersons, based on their progress towards vesting and the expected percentage that will become vested. As noted above, as the liability increases over the first year of the related merchant contract, we record a related asset for currently vested salespersons. Subsequent changes in the estimated accrued buyout liability due to merchant attrition, same-store sales growth or contraction and changes in profitability are included in the selling, general and administrative expense in the consolidated statement of income.

The accrued buyout liability is based on merchants under contract at the balance sheet date, the gross margin generated by those merchants over the prior 2 months, and the contractual buyout multiple. The liability related to a new merchant is therefore zero when the merchant is installed, and increases over the 12 months following the installation date. The same procedure is applied to unvested commissions over the expected vesting period, but is further adjusted to reflect our estimate of the percentage of unvested salespersons that will become vested.

The classification of the accrued buyout liability between current and noncurrent on the consolidated balance sheet is based upon our estimate of the amount of the accrued buyout liability that we reasonably expect to pay over the next 12 months.

***Income taxes***— Deferred income taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax laws and rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

***Derivative instruments***— We may use interest rate swaps or other derivative instruments to manage a portion of our exposure to the variability in interest rates. Our objective in managing our exposure to fluctuation in interest rates is to better control this element of cost and to mitigate the earnings and cash flow volatility associated with changes in applicable rates. We have established policies and procedures that encompass risk-management philosophy and objectives, guidelines for derivative instrument usage, counterparty credit approval, and the monitoring and reporting of derivative activity. We do not enter into derivative instruments for the purpose of speculation.

We formally designate and document instruments at inception that qualify for hedge accounting of underlying exposures. When qualified for hedge accounting, these financial instruments are recognized at fair value in our consolidated balance sheets, and changes in fair value are recognized as a component of other comprehensive income and included in accumulated other comprehensive income within equity in our consolidated balance sheets. Cash flows resulting from settlements are presented as a component of cash flows from operating activities within our consolidated statements of cash flows.

We formally assess, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in cash flows of the related underlying exposure. Fluctuations in the value of these instruments generally are offset by changes in the cash flows of the underlying exposures being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. We designated each of our interest rate swap agreements as a cash flow hedge of interest payments on variable rate borrowings. Any ineffective portion of a change in the fair value of a qualifying instrument would be immediately recognized in earnings. See "Note 7 - Long-Term Debt and Lines of Credit" for more information about our interest rate swaps.

***Fair value measurements***— Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. GAAP establishes a fair value hierarchy that categorizes the inputs to valuation techniques into three broad levels. Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Level 2 inputs are based on other observable market data, such as quoted prices for similar assets and liabilities, and inputs other than quoted prices that are observable such as interest rates and yield curves. Level 3 inputs are developed from unobservable data reflecting our assumptions and include situations where there is little or no market activity for the asset or liability.

***Fair value of financial instruments***— The carrying amounts of cash and cash equivalents, receivables, settlement lines of credit, accounts payable and accrued liabilities, approximate their fair value given the short-term nature of these items. Our long-term debt includes variable interest rates based on the London Interbank Offered Rate ("LIBOR"), the Federal Funds Effective Rate (as defined in the debt agreements) or the prime rate, plus a margin based on our leverage position. At December 31, 2016, the carrying amount of our long-term debt exclusive of debt issuance costs approximated fair value, which is calculated using Level 2 inputs. The fair values of our swap agreements were determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date, and classified within Level 2 of the valuation hierarchy. See "Note 7 - Long-Term Debt and Lines of Credit" for further information.

***Foreign currencies***— We have significant operations in a number of foreign subsidiaries whose functional currency is the local currency. The assets and liabilities of subsidiaries whose functional currency is a foreign currency are translated into the reporting currency at the period-end rate of exchange. Income statement items are translated at the weighted-average rates prevailing during the period. The resulting translation adjustment is recorded as a component of other comprehensive income and is included in accumulated comprehensive income within equity in our consolidated balance sheets.

Gains and losses on transactions denominated in currencies other than the functional currency are generally included in determining net income for the period. For the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015 and 2014, our transaction gains and losses were insignificant. Transaction gains and losses on intercompany balances of a long-term investment nature are recorded as a component of other comprehensive income and included in accumulated comprehensive income within equity in our consolidated balance sheets.

**Earnings per share**— Basic earnings per share ("EPS") is computed by dividing reported net income attributable to Global Payments by the weighted-average number of shares outstanding during the period. Earnings available to common shareholders is the same as reported net income attributable to Global Payments for all periods presented.

Diluted EPS is computed by dividing net income attributable to Global Payments by the weighted-average number of shares outstanding during the period, including the effect of share-based awards that would have a dilutive effect on earnings per share. All stock options with an exercise price lower than the average market share price of our common stock for the period are assumed to have a dilutive effect on EPS. There were no antidilutive stock options that would have an antidilutive effect on the computation of diluted EPS for the 2016 fiscal transition period or for the fiscal years ended May 31, 2016, 2015, and 2014.

The following table sets forth the computation of the diluted weighted-average number of shares outstanding for all periods presented:

	Seven Months Ended December 31,	Years Ended May 31,		
	2016	2016	2015	2014
		(in thousands)		
Basic weighted-average number of shares outstanding	153,342	132,284	134,072	144,238
Plus: Dilutive effect of stock options and other share-based awards	889	883	850	1,138
Diluted weighted-average number of shares outstanding	154,231	133,167	134,922	145,376

**Repurchased shares**— We account for the retirement of repurchased shares using the par value method under which the repurchase price is charged to paid-in capital up to the amount of the original issue proceeds of those shares. When the repurchase price is greater than the original issue proceeds, the excess is charged to retained earnings. We use a last-in, first-out cost flow assumption to identify the original issue proceeds of the shares repurchased.

**Reclassifications**— To conform to the presentation in the transition period, we made a reclassification in our cash flow statement for the fiscal year ended May 31, 2016 to separately present \$1.8 million of "amortization of capitalized customer acquisition costs" previously included in "other, net" among the adjustments to reconcile net income to net cash provided by operating activities. We also made a reclassification to separately present \$12.0 million of "capitalized customer acquisition costs" previously included in "prepaid expenses and other" among the changes in operating assets and liabilities. These reclassifications had no effect on net cash provided by operating activities for the fiscal year ended May 31, 2016.

**Recently Adopted Accounting Pronouncements**— In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05, "Intangibles-Goodwill and Other Internal-Use Software (Subtopic 350-40): *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*." The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance did not change GAAP for a customer's accounting for service contracts. We adopted this standard as of June 1, 2016 on a prospective basis, and it was not material to our balance sheet and/or our results of operations or cash flows.

Recently Issued Pronouncements Not Yet Adopted

**Accounting Standard Codification ("ASC") 606 - New Revenue Standard**

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP and permits the use of either the retrospective or modified retrospective transition method. The update requires significant additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09, as amended by ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): *Deferral of the Effective Date*," is effective for years beginning after December 15, 2017, including interim periods, with early adoption permitted for years beginning after December 15, 2016. Since the issuance of ASU 2014-09, the FASB has issued additional interpretive guidance, including new accounting standards updates that clarify certain points of the standard and modifies certain requirements.

We have performed a review of the requirements of the new revenue standard and are monitoring the activity of the FASB and the transition resource group as it relates to specific interpretive guidance. We are reviewing customer contracts and are in the process of applying the five-step model of the new standard to each contract category we have identified and will compare the results to our current accounting practices. We plan to adopt ASU 2014-09, as well as other clarifications and technical guidance issued by the FASB related to this new revenue standard, on January 1, 2018. We will likely apply the modified retrospective transition method, which would result in an adjustment to retained earnings for the cumulative effect, if any, of applying the standard to contracts in process as of the adoption date. Under this method, we would not restate the prior financial statements presented, therefore the new standard requires us to provide additional disclosures of the amount by which each financial statement line item is affected in the current reporting period during 2018, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes, if any.

The new standard could change the amount and timing of revenue and costs under certain arrangement types and could increase the administrative burden on our operations to properly account for customer contracts and provide the more expansive required disclosures. We have not yet determined what effect, if any, the new guidance will have on our consolidated financial statements and/or related disclosures.

**Other Accounting Standards Updates**

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): *Simplifying the Test for Goodwill Impairment*." The ASU proposes to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Amendments in this ASU should be applied on a prospective basis. The ASU will become effective for us on January 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are evaluating the effect of ASU 2017-04 on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): *Clarifying the Definition of a Business*." The ASU clarifies the definition of a business, which affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The new standard is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses, with the expectation that fewer will qualify as acquisitions (or disposals) of businesses. The amendments in this update should be applied prospectively on or after the effective date. The ASU will become effective for us on January 1, 2018. Early adoption is permitted for certain transactions that occur before the effective date. We are evaluating the effect of ASU 2017-01 on our consolidated financial statements.



In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): *Intra-Entity Transfers of Assets Other Than Inventory*." The amendments in this update state that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory, such as intellectual property and property and equipment, when the transfer occurs. The amendments in this update will become effective for us on January 1, 2018. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are evaluating the effect of ASU 2016-16 on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*," which makes clarifications to how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. ASU 2016-15 will become effective for us on January 1, 2018, and will require adoption on a retrospective basis. Early adoption is permitted. We are evaluating the effect of ASU 2016-15 on our consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*." The amendments in this update change how companies measure and recognize credit impairment for many financial assets. The new expected credit loss model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets (including trade receivables) that are in the scope of the update. The update also made amendments to the current impairment model for held-to-maturity and available-for-sale debt securities and certain guarantees. The guidance will become effective for us on January 1, 2020. Early adoption is permitted for periods beginning on or after January 1, 2019. We are evaluating the effect of ASU 2016-13 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting*." The amendments in this update will change how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize the income tax effects of the excess deficiencies or shortfalls of awards in the statement of income when the awards vest or are settled. This update also changes the guidance on employers' accounting for an employee's use of shares to satisfy the employer's statutory income tax withholding obligation and permits entities to elect to recognize forfeitures based on actuals or estimates. Finally, the update eliminates the hypothetical additional paid-in capital pool, permits stock option deductions even if not realized in the current year on a return, requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity and potentially has a dilutive effect on EPS to the extent that excess tax benefits have historically been included in the calculation of diluted EPS. We will adopt the various amendments in ASU 2016-09 in our consolidated financial statements for the quarterly period ending March 31, 2017 with an effective date of January 1, 2017. As required, we will use the modified retrospective transition method for amendments related to the timing of when excess tax benefits are recognized by means of a cumulative-effect adjustment to shareholders' equity as of January 1, 2017. We also plan to account for forfeitures when they occur. Finally, the excess tax benefits from our share-based compensation plans are currently presented as a financing activity in our consolidated statement of cash flows and will be presented as an operating activity using a retrospective transition method. We do not expect the adoption of these amendments will have a material effect on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases*." The amendments in this update require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. In addition, several new disclosures will be required. Although early adoption is permitted, we expect to adopt ASU 2016-02 when it becomes effective for us on January 1, 2019. Adoption will require a modified retrospective transition where the lessees are required to recognize and measure leases at the beginning of the earliest period presented. We have not completed our evaluation of the effect of ASU 2016-02 on our consolidated financial statements; however, we expect to recognize right of use assets and liabilities for our operating leases in the balance sheet upon adoption.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*." The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures and limited liability companies) to be measured at fair value with changes in the fair value recognized through earnings. Equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the

scope of this update. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The guidance will become effective for us on January 1, 2018. Except for specific aspects of this pronouncement, early adoption of the amendments in this update is not permitted. We are evaluating the effect of ASU 2016-01 on our consolidated financial statements.

## NOTE 2— ACQUISITIONS

### Fiscal Year Ended May 31, 2016

#### *Heartland*

On December 15, 2015, we entered into the Merger Agreement with Heartland, pursuant to which we merged with Heartland in a cash-and-stock transaction that we completed on April 22, 2016. In accordance with the terms and subject to the conditions set forth in the Merger Agreement, as a result of the transaction, each outstanding share of Heartland common stock was converted into the right to receive \$53.28 in cash and 0.6687 shares of our common stock, which as of the closing date represented total purchase consideration of \$3.9 billion, the cash portion of which was financed with debt.

The following table summarizes the cash and non cash components of the consideration transferred on April 22, 2016 (in thousands):

Cash consideration paid to Heartland stockholders	\$ 2,043,362
Fair value of Global Payments common stock issued to Heartland stockholders	1,879,458
Total purchase consideration	<u>\$ 3,922,820</u>

The merger date fair value of common stock issued to Heartland stockholders and equity award holders was determined based on 8.4 million shares of Heartland common stock, including common stock outstanding and equity awards for which vesting accelerated in accordance with the Merger Agreement, multiplied by the exchange ratio of 0.6687 and the closing share price of Global Payments common stock as of April 22, 2016 of \$73.29 per share, as shown in the table below (in thousands, except share data):

Shares of Heartland common stock	38,350
Exchange ratio	0.6687
Shares of Global Payments common stock issued	<u>25,645</u>
Price per share of Global Payments common stock	\$ 73.29
Fair value of Global Payments common stock issued to Heartland stockholders	<u>\$ 1,879,458</u>

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This transaction was accounted for as a business combination, which requires that we record the assets acquired and liabilities assumed at fair value as of the acquisition date. The initial accounting for this acquisition was complete as of December 31, 2016, except for the fair value of deferred income taxes and certain other assets and liabilities, which are subject to adjustment as we obtain additional information. Additional time is needed particularly to evaluate the basis differences for assets and liabilities for financial reporting and tax purposes. Measurement-period adjustments, which are reflected in the table below, had no material effect on earnings or other comprehensive income for the current or prior periods.

The estimated provisional acquisition-date fair values of major classes of assets acquired and liabilities assumed as originally reported as of May 31, 2016 and as subsequently revised during the 2016 fiscal transition period for measurement period adjustments, including a reconciliation to the total purchase consideration, are as follows:

	May 31, 2016	Measurement Period Adjustments	December 31, 2016
	(in thousands)		
Cash and cash equivalents	\$ 304,747	\$ —	\$ 304,747
Accounts receivable	68,548	1,837	70,385
Prepaid expenses and other assets	106,450	(3,360)	103,090
Identified intangible assets	1,639,040	—	1,639,040
Property and equipment	112,222	(5,639)	106,583
Debt	(437,933)	—	(437,933)
Accounts payable and accrued liabilities	(453,550)	(4,213)	(457,763)
Settlement processing obligations	(20,978)	(15,600)	(36,578)
Deferred income taxes	(553,432)	34,638	(518,794)
Other liabilities	(58,542)	(6,396)	(64,938)
Total identifiable net assets	706,572	1,267	707,839
Goodwill	3,216,248	(1,267)	3,214,981
Total purchase consideration	\$ 3,922,820	\$ —	\$ 3,922,820

Prior to the merger, Heartland was one of the largest payment services companies in the United States, delivering payment technology services and offering integrated commerce, omnichannel, vertically-oriented software, cloud-based point-of-sale, analytics, marketing, payroll and other solutions that are highly complementary to the services offered by Global Payments. The merger significantly expanded our small and medium-sized enterprise distribution, merchant base and vertical reach in the United States, adding a 1,400-person direct sales force, over 300,000 merchants and \$130 billion in annual payments volume. Goodwill of \$3.2 billion arising from the merger, included in the North America segment, was attributable to expected growth opportunities, potential synergies from combining our existing businesses and an assembled workforce, and is not deductible for income tax purposes. During the year ended May 31, 2016, we incurred transaction costs in connection with the merger of \$24.4 million, which are recorded in selling, general and administrative expenses in the consolidated statements of income.

The following reflects the estimated fair values of the identified intangible assets and the respective weighted-average estimated amortization periods:

	Estimated Fair Values	Estimated Weighted-Average Amortization Periods
	(in thousands)	(years)
Customer-related intangible assets	\$ 977,400	15
Acquired technology	457,000	5
Trademarks and trade names	176,000	7
Covenants-not-to-compete	28,640	1
<b>Total estimated acquired intangible assets</b>	<b>\$ 1,639,040</b>	<b>11</b>

The estimated fair value of customer-related intangible assets was determined using the income approach, which is based on projected cash flows discounted to their present value using discount rates that consider the timing and risk of the forecasted cash flows. The discount rate used is the average estimated value of a market participant's cost of capital and debt, derived using customary market metrics. Other significant assumptions include terminal value margin rates, future capital expenditures and future working capital requirements. Acquired technology was valued using the replacement cost method, which required us to estimate the cost to construct an asset of equivalent utility at prices available at the time of the valuation analysis, with adjustments in value for physical deterioration and functional and economic obsolescence. Trademarks and trade names were valued using the relief-from-royalty approach. This method assumes that trademarks and trade names have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method required us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted-average cost of capital. The discount rate used is the average estimated value of a market participant's cost of capital and debt, derived using customary market metrics.

Heartland's revenues and operating income represented approximately 4% and less than 0.5% of our total consolidated revenues and operating income, respectively, for the fiscal year ended May 31, 2016. The following unaudited pro forma information shows the results of our operations for the fiscal years ended May 31, 2016 and May 31, 2015 as if our merger with Heartland had occurred on June 1, 2014. The unaudited pro forma information reflects the effects of applying our accounting policies and certain pro forma adjustments to the combined historical financial information of Global Payments and Heartland. The pro forma adjustments include incremental amortization and depreciation expense, incremental interest expense associated with new long-term debt, a reduction of revenues and operating expenses associated with fair value adjustments made in applying the acquisition-method of accounting and the elimination of nonrecurring transaction costs directly related to the merger.

The unaudited pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the merger had been made as of that date. The unaudited pro forma information is also not intended to be a projection of future results due to the integration of the acquired business.

	Year Ended May 31,			
	(Unaudited)			
	2016 (Actual)	2016 (Pro forma)	2015 (Actual)	2015 (Pro forma)
	(in thousands)			
Total revenues	\$ 2,898,150	\$ 3,870,368	\$ 2,773,718	\$ 3,668,851
Net income attributable to Global Payments	\$ 271,666	\$ 212,511	\$ 278,040	\$ 149,900

*FIS Gaming Business*

On June 1, 2015, we acquired certain assets of Certegy Check Services, Inc., a wholly-owned subsidiary of Fidelity National Information Services, Inc. ("FIS"). Under the purchase arrangement, we acquired substantially all of the assets of its gaming business related to licensed gaming operators (the "FIS Gaming Business"), including relationships with gaming clients in approximately 260 locations, for \$237.5 million, funded from borrowings on our revolving credit facility and cash on hand. We acquired the FIS Gaming Business to expand our direct distribution and service offerings in the gaming industry. This transaction was accounted for as a business combination. We recorded the assets acquired and liabilities assumed at their estimated fair values as of the merger date. Transaction costs associated with this business combination were not material. Measurement-period adjustments, which are reflected in the table below, had no material effect on earnings or other comprehensive income for the current or prior periods.

The revenue and earnings of the FIS Gaming Business for the year ended May 31, 2016 were not material nor were the historical revenue and earnings of the FIS Gaming Business material for the purpose of presenting pro forma information.

The estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed as provisionally determined at the acquisition date and as subsequently revised for measurement period adjustments, including a reconciliation to the total purchase consideration, are as follows:

	As Provisionally Determined	Measurement Period Adjustments	As Revised
(in thousands)			
Customer-related intangible assets	\$ 135,200	\$ 8,200	\$ 143,400
Liabilities	(150)	—	(150)
Total identifiable net assets	135,050	8,200	143,250
Goodwill	102,450	(8,200)	94,250
Total purchase consideration	\$ 237,500	\$ —	\$ 237,500

Goodwill arising from the acquisition, included in the North America segment, was attributable to expected growth opportunities, including cross-selling opportunities at existing and acquired gaming client locations, operating synergies in the gaming business and assembled workforce. Goodwill associated with this acquisition is deductible for income tax purposes. The customer-related intangible assets have an estimated amortization period of 15 years.

**Fiscal Year Ended May 31, 2015***Realex Payments*

On March 25, 2015, we acquired approximately 95% of the outstanding shares of Pay and Shop Limited for €110.2 million in cash (\$118.9 million equivalent as of the acquisition date) funded from borrowings on our revolving credit facility. Pay and Shop Limited, which does business as Realex Payments ("Realex"), is a leading European online payment gateway technology provider based in Dublin, Ireland. This transaction furthers our strategy to provide omni-channel solutions that combine gateway services, payment service provisioning and payment technology services across Europe. This transaction was accounted for as a business combination. We recorded the assets acquired, liabilities assumed and noncontrolling interest at their estimated fair values as of the acquisition date. In connection with the acquisition of Realex, we paid a transaction-related tax of \$1.2 million. Other acquisition costs were not material.

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The estimated acquisition date fair values of the assets acquired, liabilities assumed and the noncontrolling interest, including a reconciliation to the total purchase consideration, are as follows (in thousands):

Cash	\$	4,082
Customer-related intangible assets		16,079
Acquired technology		39,820
Trade name		3,453
Other intangible assets		399
Other assets		6,213
Liabilities		(3,479)
Deferred income tax liabilities		(7,216)
Total identifiable net assets		59,351
Goodwill		66,809
Noncontrolling interest		(7,280)
Total purchase consideration	\$	118,880

Goodwill of \$66.8 million arising from the acquisition, included in the Europe segment, was attributable to expected growth opportunities in Europe, potential synergies from combining our existing business with gateway services and payment service provisioning in certain markets and an assembled workforce to support the newly acquired technology. Goodwill associated with this acquisition is not deductible for income tax purposes. The customer-related intangible assets have an estimated amortization period of 16 years. The acquired technology has an estimated amortization period of 10 years. The trade name has an estimated amortization period of 7 years.

On October 5, 2015, we paid €6.7 million (\$7.5 million equivalent as of October 5, 2015) to acquire the remaining shares of Realex, after which we own 100% of the outstanding shares.

#### *Ezidebit*

On October 10, 2014, we completed the acquisition of 100% of the outstanding stock of Ezi Holdings Pty Ltd ("Ezidebit") for AUD\$02.6 million in cash (\$266.0 million equivalent as of the acquisition date). This acquisition was funded by a combination of cash on hand and borrowings on our revolving credit facility. Ezidebit is a leading integrated payments company focused on recurring payments verticals in Australia and New Zealand. Ezidebit markets its services through a network of integrated software vendors and direct channels to numerous vertical markets. We acquired Ezidebit to establish a direct distribution channel in Australia and New Zealand and to further enhance our existing integrated solutions offerings. This transaction was accounted for as a business combination. We recorded the assets acquired and liabilities assumed at their estimated fair values as of the acquisition date.

The estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed, including a reconciliation to the total purchase consideration, are as follows (in thousands):

Cash	\$	45,826
Customer-related intangible assets		42,721
Acquired technology		27,954
Trade name		2,901
Other assets		2,337
Deferred income tax assets (liabilities)		(9,788)
Other liabilities		(49,797)
Total identifiable net assets		62,154
Goodwill		203,828
Total purchase consideration	\$	265,982

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Goodwill of \$203.8 million arising from the acquisition, included in the Asia-Pacific segment, was attributable to expected growth opportunities in Australia and New Zealand, as well as growth opportunities and operating synergies in integrated payments in our existing Asia-Pacific and North America markets. Goodwill associated with this acquisition is not deductible for income tax purposes. The customer-related intangible assets have an estimated amortization period of 15 years. The acquired technology has an estimated amortization period of 15 years. The trade name has an estimated amortization period of 5 years.

***Fiscal Year Ended May 31, 2014****PayPros*

On March 4, 2014, we completed the acquisition of 100% of the outstanding stock of Payment Processing, Inc. ("PayPros") for \$426.5 million in cash. We funded the acquisition with a combination of cash on hand and borrowings under our corporate credit facility. PayPros is a provider of fully-integrated payment solutions for small-to-medium sized merchants in the United States. PayPros delivers its services through a network of technology-based enterprise software partners to vertical markets that are complementary to the markets served by Accelerated Payment Technologies, which we acquired in October 2012. We acquired PayPros to expand our direct distribution capabilities in the United States and to further enhance our existing integrated solutions offerings. This transaction was recorded as a business combination. We recorded the assets acquired and liabilities assumed at their estimated fair values as of the acquisition date.

The following table summarizes the fair value of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

Property and equipment	\$	1,680
Customer-related intangible assets		147,500
Contract-based intangible assets		30,200
Acquired technology		10,800
Other assets		3,872
Deferred income tax liabilities		(38,478)
Total identifiable net assets		<u>155,574</u>
Goodwill		270,878
Total purchase consideration	\$	<u>426,452</u>

Goodwill of \$270.9 million arising from the acquisition, included in the North America segment, was attributable primarily to operating synergies with the services offered and markets served by PayPros. The goodwill associated with the acquisition is not deductible for income tax purposes. The customer-related intangible assets and the contract-based intangible assets have estimated amortization periods of 13 years. The acquired technology has an estimated amortization period of 7 years.

The following unaudited pro forma information shows the results of our operations for the fiscal year ended May 31, 2014 as if the PayPros acquisition had occurred June 1, 2012. The unaudited pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisition had been made as of that date. The unaudited pro forma information is also not intended to be a projection of future results due to the integration of the acquired business.

	Year Ended May 31,	
	Unaudited	
	2014	2014
	(Actual)	(Pro forma)
	(in thousands)	
Total revenues	\$ 2,554,236	\$ 2,628,547
Net income attributable to Global Payments	\$ 245,286	\$ 241,272

### NOTE 3—SETTLEMENT PROCESSING ASSETS AND OBLIGATIONS

Funds settlement refers to the process of transferring funds for sales and credits between card issuers and merchants. For transactions processed on our systems, we use our internal network to provide funding instructions to financial institutions that in turn fund the merchants. We process funds settlement under two models, a sponsorship model and a direct membership model.

Under the sponsorship model, we are designated as a Merchant Service Provider by MasterCard and an Independent Sales Organization by Visa, which means that member clearing banks ("Member") sponsor us and require our adherence to the standards of the payment networks. In certain markets, we have sponsorship or depository and clearing agreements with financial institution sponsors. These agreements allow us to route transactions under the Members' control and identification numbers to clear credit card transactions through MasterCard and Visa. In this model, the standards of the payment networks restrict us from performing funds settlement or accessing merchant settlement funds, and, instead, require that these funds be in the possession of the Member until the merchant is funded.

Under the direct membership model, we are members in various payment networks, allowing us to process and fund transactions without third-party sponsorship. In this model, we route and clear transactions directly through the card brand's network and are not restricted from performing funds settlement. Otherwise, we process these transactions similarly to how we process transactions in the sponsorship model. We are required to adhere to the standards of the payment networks in which we are direct members. We maintain relationships with financial institutions, which may also serve as our Member sponsors for other card brands or in other markets, to assist with funds settlement.

Timing differences, interchange fees, Merchant Reserves and exception items cause differences between the amount received from the payment networks and the amount funded to the merchants. These intermediary balances arising in our settlement process for direct merchants are reflected as settlement processing assets and obligations on our consolidated balance sheets. Settlement processing assets and obligations include the components outlined below:

- Interchange reimbursement - our receivable from merchants for the portion of the discount fee related to reimbursement of the interchange fee.
- Receivable from Members - our receivable from the Members for transactions in which we have advanced funding to the Members to fund merchants in advance of receipt of funding from networks.
- Receivable from networks - our receivable from a payment network for transactions processed on behalf of merchants where we are a direct member of that particular network.
- Exception items - items such as customer chargeback amounts received from merchants.
- Merchant Reserves - reserves held to minimize contingent liabilities associated with losses that may occur under the merchant agreement.
- Liability to Members - our liability to the Members for transactions for which funding from the payment network has been received by the Members but merchants have not yet been funded.
- Liability to merchants - our liability to merchants for transactions that have been processed but not yet funded where we are a direct member of a particular payment network.
- Reserve for sales allowance and operating losses - our reserve for allowances, charges or losses that we do not expect to collect from the merchants due to concessions, merchant fraud, insolvency, bankruptcy or any other merchant-related reason.

We apply offsetting to our settlement processing assets and obligations where a right of setoff exists. In the sponsorship model, we apply offsetting by Member agreement because the Member is ultimately responsible for funds settlement. With these Member transactions, we do not have access to the gross proceeds of the receivable from the payment networks and, thus, do not have a direct obligation or any ability to satisfy the payable to fund the merchant. In these situations, we apply offsetting to determine a net position for each Member agreement. If that net position is an asset, we reflect the net amount in settlement processing assets on our consolidated balance sheet, and we present the individual components in the settlement processing assets table below. If that net position is a liability, we reflect the net amount in settlement processing obligations on our consolidated balance sheet, and we present the individual components in the settlement processing obligations table below. In the direct membership model, offsetting is not applied, and the individual components are presented as an asset or obligation based on the nature of that component.



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As of December 31, 2016, May 31, 2016 and 2015, settlement processing assets and obligations consisted of the following:

	December 31,	May 31,	
	2016	2016	2015
(in thousands)			
<b>Settlement processing assets:</b>			
Interchange reimbursement	\$ 150,612	\$ 150,644	\$ 186,660
Receivable from (liability to) Members	71,590	(14,997)	294,837
Receivable from networks	1,325,029	1,203,308	1,919,148
Exception items	6,450	3,003	4,920
Merchant Reserves	(6,827)	(5,632)	(10,743)
	<u>\$ 1,546,854</u>	<u>\$ 1,336,326</u>	<u>\$ 2,394,822</u>
<b>Settlement processing obligations:</b>			
Interchange reimbursement	\$ 199,202	\$ 193,989	\$ 68,444
Liability to Members	(177,979)	(261,945)	(628)
Liability to merchants	(1,358,271)	(1,005,009)	(1,931,390)
Exception items	21,194	5,827	5,331
Merchant Reserves	(158,419)	(149,667)	(169,442)
Reserve for operating losses and sales allowances	(2,939)	(3,510)	(6,215)
	<u>\$ (1,477,212)</u>	<u>\$ (1,220,315)</u>	<u>\$ (2,033,900)</u>

**NOTE 4—PROPERTY AND EQUIPMENT**

As of December 31, 2016, May 31, 2016 and 2015, property and equipment consisted of the following:

	Range of Depreciable Lives (Years)	December 31,	May 31,	
		2016	2016	2015
(in thousands)				
Land	N/A	\$ 6,159	\$ 6,221	\$ 1,571
Buildings	25-38	61,135	62,901	26,236
Equipment	2-20	224,460	209,201	197,186
Software	2-10	319,214	290,997	248,137
Leasehold improvements	3-15	40,158	40,452	20,458
Furniture and fixtures	3-7	15,913	17,489	3,705
		<u>667,039</u>	<u>627,261</u>	<u>497,293</u>
Less accumulated depreciation and amortization		(226,570)	(200,669)	(179,932)
Work in progress		85,901	67,086	56,782
		<u>\$ 526,370</u>	<u>\$ 493,678</u>	<u>\$ 374,143</u>

**NOTE 5—GOODWILL AND INTANGIBLE ASSETS**

As of December 31, 2016, May 31, 2016 and 2015, goodwill and other intangible assets consisted of the following:

	December 31,	May 31,	
	2016	2016	2015
	(in thousands)		
Goodwill	\$ 4,807,594	\$ 4,829,405	\$ 1,491,833
Other intangible assets:			
Customer-related intangible assets	\$ 1,864,731	\$ 1,864,709	\$ 718,011
Acquired technologies	547,151	549,293	93,194
Trademarks and trade names	188,311	188,763	10,777
Contract-based intangible assets	157,882	159,890	130,874
	<u>2,758,075</u>	<u>2,762,655</u>	<u>952,856</u>
Less accumulated amortization on:			
Customer-related intangible assets	487,729	414,979	342,488
Acquired technologies	89,633	26,403	8,509
Trademarks and trade names	24,142	7,830	4,437
Contract-based intangible assets	71,279	48,735	37,286
	<u>672,783</u>	<u>497,947</u>	<u>392,720</u>
	<u>\$ 2,085,292</u>	<u>\$ 2,264,708</u>	<u>\$ 560,136</u>

The following table sets forth the changes in the carrying amount of goodwill for the 2016 fiscal transition period and for the fiscal years ended May 31, 2016 and 2015:

	North America	Europe	Asia-Pacific	Total
	(in thousands)			
Balance at May 31, 2014	\$ 786,655	\$ 491,038	\$ 59,592	\$ 1,337,285
Goodwill acquired	4,794	67,220	192,225	264,239
Effect of foreign currency translation	(11,715)	(72,337)	(25,639)	(109,691)
Balance at May 31, 2015	<u>779,734</u>	<u>485,921</u>	<u>226,178</u>	<u>1,491,833</u>
Goodwill acquired	3,318,768	—	53,402	3,372,170
Effect of foreign currency translation	(3,872)	(13,737)	(15,397)	(33,006)
Measurement-period adjustments	(8,200)	(411)	7,019	(1,592)
Balance at May 31, 2016	<u>4,086,430</u>	<u>471,773</u>	<u>271,202</u>	<u>4,829,405</u>
Goodwill acquired	—	28,820	—	28,820
Effect of foreign currency translation	(1,911)	(45,265)	(2,160)	(49,336)
Measurement-period adjustments	(1,267)	(28)	—	(1,295)
Balance at December 31, 2016	<u>\$ 4,083,252</u>	<u>\$ 455,300</u>	<u>\$ 269,042</u>	<u>\$ 4,807,594</u>

There was no accumulated impairment loss as of December 31, 2016, May 31, 2016, May 31, 2015 or May 31, 2014.

Customer-related intangible assets acquired during the 2016 fiscal transition period had a weighted-average amortization period of 12.1 years. Customer-related intangible assets, acquired technologies and trademarks and trade names acquired during the fiscal year ended May 31, 2016 had weighted-average amortization periods of 13.9 years, 5.0 years and 7.0 years, respectively. Customer-related intangible assets, acquired technologies and trademarks and trade names acquired during the fiscal year ended May 31, 2015 had weighted-average amortization periods of 15.1 years, 9.1 years and 6.1 years, respectively. Amortization expense of acquired intangibles was \$194.3 million for the 2016 fiscal transition period and \$113.7 million, \$72.6 million, and \$61.9 million for fiscal years ended May 31, 2016, 2015 and 2014, respectively.

The estimated amortization expense of acquired intangibles as of December 31, 2016 for the next five years, calculated using the currency exchange rate at the date of acquisition, if applicable, is as follows (in thousands):

2017	\$	343,063
2018		310,528
2019		287,938
2020		261,989
2021		187,021

#### NOTE 6—OTHER ASSETS

Through certain of our subsidiaries in Europe, we were a member and shareholder of Visa Europe Limited ("Visa Europe"). On June 21, 2016, Visa Inc. ("Visa") acquired all of the membership interests in Visa Europe, including ours, upon which we recorded a gain of \$41.2 million included in interest and other income in our consolidated statement of income for the seven months ended December 31, 2016. We received up-front consideration comprised of €33.5 million (\$37.7 million equivalent at June 21, 2016) in cash and Series B and C convertible preferred shares whose initial conversion rate equates to Visa common shares valued at \$22.9 million as of June 21, 2016. However, the preferred shares were assigned a value of zero based on transfer restrictions, Visa's ability to adjust the conversion rate, and the estimation uncertainty associated with those factors. The fair value of the preferred shares was determined using inputs classified as Level 3 within the fair value hierarchy due to the absence of quoted market prices, lack of liquidity and the fact that inputs used to measure fair value are unobservable and require management's judgment. The preferred shares will convert into Visa common shares at periodic intervals over a 12-year period. Based on the outcome of potential litigation involving Visa Europe in the United Kingdom and elsewhere in Europe, the conversion rate of the preferred shares could be adjusted down such that the number of Visa common shares we ultimately receive could be as low as zero, and approximately €25.6 million (\$28.8 million equivalent at June 21, 2016) of the up-front cash consideration could be refundable. We account for the preferred shares using the cost method. On the third anniversary of the closing of the acquisition by Visa, we will also receive €3.1 million (\$3.5 million equivalent at June 21, 2016) of deferred consideration (plus compounded interest at a rate of 4.0% per annum).

#### NOTE 7—LONG-TERM DEBT AND LINES OF CREDIT

As of December 31, 2016, May 31, 2016 and 2015, long-term debt consisted of the following:

	December 31, 2016	May 31, 2016      2015	
	(in thousands)		
Corporate credit facility:			
Term loans (face amounts of \$3,728,857, \$3,530,000 and \$1,234,375 at December 31, 2016, May 31, 2016 and 2015, respectively, less unamortized debt issuance costs of \$46,282, \$51,770 and \$2,433 at December 31, 2016, May 31, 2016 and 2015, respectively)	\$ 3,682,575	\$ 3,478,230	\$ 1,231,942
Revolving credit facility	756,000	1,037,000	508,125
Capital lease obligations	37	56	—
Total long-term debt	4,438,612	4,515,286	1,740,067
Less current portion of corporate credit facility (face amounts of \$187,274, \$145,938 and \$62,500 at December 31, 2016, May 31, 2016 and 2015, respectively, less unamortized debt issuance costs of \$9,526, \$10,442 and \$716 at December 31, 2016, May 31, 2016 and 2015, respectively) and current portion of capital lease obligations of \$37 and \$46 at December 31, 2016 and May 31, 2016, respectively	177,785	135,542	61,784
Long-term debt, excluding current portion	\$ 4,260,827	\$ 4,379,744	\$ 1,678,283

Maturity requirements on long-term debt as of December 31, 2016 by year are as follows (in thousands):

2017	\$	187,311
2018		200,974
2019		214,674
2020		214,674
2021		3,153,349
2022 and thereafter		513,912
Total	\$	<u>4,484,894</u>

We amended our existing corporate credit facility on October 31, 2016 (the "Amended 2016 Credit Facility Agreement"). The Amended 2016 Credit Facility Agreement provides for secured financing of up to \$5.03 billion comprised of (i) a \$1.75 billion term loan (the "Term A Loan"), (ii) a \$1.48 billion term loan (the "Term A-2 Loan"), (iii) a \$542 million term loan (the "Term B Loan") and (iv) a \$1.25 billion revolving credit facility (the "Revolving Credit Facility"). Substantially all of the assets of our domestic subsidiaries are pledged as collateral under the Amended 2016 Credit Facility.

The Amended 2016 Credit Facility Agreement provides for an interest rate, at our election, of either London Interbank Offered Rate ("LIBOR") or a base rate, in each case plus a leverage-based margin. As of December 31, 2016, the interest rates on the Term A Loan, the Term A-2 Loan and the Term B Loan were 3.02%, 2.97% and 3.27%, respectively.

The Term A Loan must be repaid in equal quarterly installments of \$43.8 million through August 2021, with the remaining principal balance due upon maturity in October 2021. The Term A-2 Loan must be repaid in quarterly installments of \$1.7 million, the first installment of which was made in August 2016, increasing to quarterly installments of \$8.6 million in August 2018 and ending in August 2021, with the remaining balance due upon maturity in October 2021. The Term B Loan must be repaid in quarterly installments of \$1.4 million, the first installment commencing in December 2016, ending in March 2023, with the remaining principal balance due upon maturity in April 2023.

The Amended 2016 Credit Facility Agreement allows us to issue standby letters of credit of up to \$100 million in the aggregate under the Revolving Credit Facility. Outstanding letters of credit under the Revolving Credit Facility reduce the amount of borrowings available to us. Borrowings available to us under the Revolving Credit Facility are further limited by the covenants described below under "Compliance with Covenants." The total available commitments under the Revolving Credit Facility at December 31, 2016 were \$446.3 million. As of December 31, 2016, the interest rate on the Revolving Credit Facility was 2.97%. In addition, we are required to pay a quarterly commitment fee on the unused portion of the Revolving Credit Facility. The Revolving Credit Facility expires in October 2021.

The portion of debt issuance costs related to the Revolving Credit Facility are included in other noncurrent assets, and the portion of debt issuance costs related to the term loans is reported as a reduction to the carrying amount of the term loans. Debt issuance costs are amortized as an adjustment to interest expense over the terms of the respective facilities.

#### Settlement Lines of Credit

We have lines of credit with banks in various markets where we do business. The lines of credit, which are restricted for use in funding settlement, generally have variable interest rates and are subject to annual review. The lines of credit are generally denominated in local currency but may, in some cases, facilitate borrowings in multiple currencies. For certain of our lines of credit, the available credit is increased by the amount of cash we have on deposit in specific accounts with the lender. Accordingly, the amount of the outstanding line of credit may exceed the stated credit limit. As of December 31, 2016, a total of \$51.0 million of cash on deposit was used to determine the available credit.

As of December 31, 2016, we had \$392.1 million outstanding under these lines of credit with additional capacity of \$882.6 million to fund settlement. The weighted-average interest rate on these borrowings was 1.9% at December 31, 2016. During the 2016 fiscal transition period, the maximum and average outstanding balances under these lines of credit were \$691.7 million and \$365.9 million, respectively.

**Compliance with Covenants**

The Amended 2016 Credit Facility Agreement contains customary affirmative and restrictive covenants, including, among others, financial covenants based on our leverage and fixed charge coverage ratios, as defined in the agreement. Financial covenants require a leverage ratio no greater than (i) 4.75 to 1.00 as of the end of any fiscal quarter ending during the period from September 1, 2016 through February 28, 2017, (ii) 4.50 to 1.00 as of the end of any fiscal quarter ending during the period from March 1, 2017 through August 31, 2017, (iv) 4.25 to 1.00 as of the end of any fiscal quarter ending during the period from September 1, 2017 through February 28, 2018 and (v) 4.00 to 1.00 as of the end of any fiscal quarter ending thereafter. The fixed charge coverage ratio is required to be no less than 2.25 to 1.00. The Amended 2016 Credit Facility Agreement and settlement lines of credit also include various other covenants that are customary in such borrowings. The Amended 2016 Credit Facility Agreement includes covenants, subject in each case to exceptions and qualifications that may restrict certain payments, including, in certain circumstances, the payment of cash dividends in excess of our current rate of \$0.01 per share per quarter.

The Amended 2016 Credit Facility Agreement also includes customary events of default, the occurrence of which, following any applicable cure period, would permit the lenders to, among other things, declare the principal, accrued interest and other obligations to be immediately due and payable. We were in compliance with all applicable covenants as of December 31, 2016 and for the 2016 fiscal transition period.

**Interest Rate Swap Agreements**

We have interest rate swap agreements with financial institutions to hedge changes in cash flows attributable to interest rate risk on a portion of our variable-rate debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. Since we have designated the interest rate swap agreements as portfolio cash flow hedges, unrealized gains or losses resulting from adjusting the swaps to fair value are recorded as components of other comprehensive income, except for any ineffective portion of the change in fair value, which would be immediately recorded in interest expense. During the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015 and 2014, there was no ineffectiveness. The fair values of the interest rate swaps were determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. These derivative instruments were classified within Level 2 of the valuation hierarchy.

The table below presents the fair values of our derivative financial instruments designated as cash flow hedges included in the consolidated balance sheets:

Derivative Financial Instruments	Balance Sheet Location	Weighted-Average Fixed Rate of Interest at December 31, 2016	Range of Maturity Dates	December 31, 2016	May 31, 2016	May 31, 2015
(in thousands)						
Interest rate swaps (Notional of \$250 million at December 31, 2016)	Other assets	1.34%	July 31, 2020	\$ 2,147	\$ —	\$ —
Interest rate swaps (Notional of \$750 million at December 31, 2016, \$750 million at May 31, 2016, and \$500 million at May 31, 2015)	Accounts payable and accrued liabilities	1.54%	February 28, 2019 to December 31, 2019	\$ 3,175	\$ 10,775	\$ 6,157

As of December 31, 2016, the interest rate swap agreements effectively convert \$1.0 billion of our variable-rate debt to the weighted-average fixed rates shown in the table above plus a leverage-based margin.

The table below presents the effects of our interest rate swaps on the consolidated statements of income and comprehensive income for periods presented:

	Seven Months Ended December 31,	Year Ended May 31,		
	2016	2016	2015	2014
	(in thousands)			
Amount of (gain) loss recognized in other comprehensive loss	\$ (5,532)	\$ 12,859	\$ 10,116	\$ —
Amount reclassified out of other comprehensive loss to interest expense	\$ 4,222	\$ 8,240	\$ 3,958	\$ —

At December 31, 2016, the amount in accumulated other comprehensive loss related to our interest rate swaps that is expected to be reclassified into interest expense during the next 12 months was approximately \$5.3 million.

**Interest Expense**

Interest expense was \$108.6 million, \$67.9 million, \$39.9 million and \$37.5 million for the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015 and 2014, respectively.

**NOTE 8—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As of December 31, 2016, May 31, 2016 and May 31, 2015, accounts payable and accrued liabilities consisted of the following:

	December 31,	May 31,	
	2016	2016	2015
	(in thousands)		
Customer deposits	\$ 303,353	\$ 232,121	\$ 45,333
Compensation and benefits	94,190	90,658	57,238
Fees and assessments from card networks	87,591	54,234	39,417
Unearned revenue	69,437	42,027	5,239
Commissions payable to third parties	39,370	37,589	63,737
Trade accounts payable	28,178	25,195	22,836
Third-party processing fees	24,971	16,985	4,399
Current portion of accrued buyout liability <sup>(1)</sup>	19,392	20,400	—
Other	138,405	177,205	88,676
	<u>\$ 804,887</u>	<u>\$ 696,414</u>	<u>\$ 326,875</u>

<sup>(1)</sup>The noncurrent portion of accrued buyout liability of \$58.6 million and \$49.1 million is included in other noncurrent liabilities on the consolidated balance sheets as of December 31, 2016 and May 31, 2016, respectively.

**NOTE 9—INCOME TAX**

The provision for income taxes for the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015, and 2014 consisted of the following:

	Seven Months Ended December 31,	Year Ended May 31,		
	2016	2016	2015	2014
(in thousands)				
Current income tax expense (benefit):				
Federal	\$ 22,859	\$ 26,493	\$ 25,022	\$ 49,178
State	3,443	5,454	3,905	3,856
Foreign	42,681	56,689	(10,346)	48,075
	<u>68,983</u>	<u>88,636</u>	<u>18,581</u>	<u>101,109</u>
Deferred income tax expense (benefit):				
Federal	(36,447)	(18,205)	14,822	1,568
State	(1,842)	(3,620)	3,606	1,206
Foreign	4,967	3,884	70,986	3,515
	<u>(33,322)</u>	<u>(17,941)</u>	<u>89,414</u>	<u>6,289</u>
	<u>\$ 35,661</u>	<u>\$ 70,695</u>	<u>\$ 107,995</u>	<u>\$ 107,398</u>

The income tax expense allocated to noncontrolling interests was \$4.4 million for the 2016 fiscal transition period and \$7.3 million, \$8.6 million and \$5.2 million for the fiscal years ended May 31, 2016, 2015 and 2014, respectively.

The following presents income (loss) before income taxes for the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015, and 2014:

	Seven Months Ended December 31,	Year Ended May 31,		
	2016	2016	2015	2014
(in thousands)				
United States	\$ (55,279)	\$ 59,876	\$ 135,901	\$ 153,453
Foreign	228,623	301,036	281,209	223,897
	<u>\$ 173,344</u>	<u>\$ 360,912</u>	<u>\$ 417,110</u>	<u>\$ 377,350</u>

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Our effective tax rates for periods presented differ from the federal statutory rate for the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015, and 2014 as follows:

	Seven Months Ended	Year Ended May 31,		
	December 31,	2016	2015	2014
	2016	2016	2015	2014
Federal U.S. statutory rate	35.0 %	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	0.6	0.4	1.1	0.9
Foreign income taxes (primarily U.K.)	(12.6)	(10.1)	(8.5)	(7.2)
Foreign interest income not subject to tax	(2.3)	(2.6)	(1.8)	(2.1)
Taxes on unremitted earnings	—	(3.5)	—	—
Tax credits and other	(0.1)	0.4	1.0	3.1
Effective tax rate attributable to Global Payments	20.6	19.6	26.8	29.7
Effective tax rate allocated to noncontrolling interests	—	—	(0.9)	(1.2)
Effective tax rate	20.6 %	19.6 %	25.9 %	28.5 %

Deferred income taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax laws and rates. Deferred income taxes as of December 31, 2016, May 31, 2016 and 2015 reflect the effect of temporary differences between the amounts of assets and liabilities for financial accounting and income tax purposes. As of December 31, 2016, May 31, 2016 and 2015, principal components of deferred tax items were as follows:

	December 31,	May 31,	
	2016	2016	2015
		(in thousands)	
Deferred income tax assets:			
Basis difference - U.K. business	\$ 11,145	\$ 17,831	\$ 24,520
Domestic net operating loss carryforwards	12,723	14,304	6,927
Foreign income tax credit carryforwards	7,140	7,140	14,172
Foreign net operating loss carryforwards	2,559	3,721	2,330
Share-based compensation expense	11,656	11,677	7,727
Accrued expenses	54,030	42,687	—
Other	9,101	6,483	8,636
	108,354	103,843	64,312
Less valuation allowance	(16,611)	(15,119)	(3,823)
	91,743	88,724	60,489
Deferred tax liabilities:			
Acquired intangibles	663,922	721,928	147,239
Property and equipment	86,548	86,969	63,957
Taxes on unremitted earnings	—	—	4,992
Foreign currency translation	—	—	14,659
Other	1,956	1,970	2,069
	752,426	810,867	232,916
Net deferred income tax liability	\$ (660,683)	\$ (722,143)	\$ (172,427)



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The net deferred income taxes reflected on our consolidated balance sheets as of December 31, 2016, May 31, 2016 and 2015 are as follows:

	December 31,	May 31,	
	2016	2016	2015
	(in thousands)		
Noncurrent deferred income tax asset	\$ 15,789	\$ 22,719	\$ 30,428
Noncurrent deferred income tax liability	(676,472)	(744,862)	(202,855)
	<u>\$ (660,683)</u>	<u>\$ (722,143)</u>	<u>\$ (172,427)</u>

Undistributed earnings of approximately \$1.4 billion from certain foreign subsidiaries are considered to be indefinitely reinvested abroad and are not expected to be repatriated to the United States in the foreseeable future. Because those earnings are considered to be indefinitely reinvested, no domestic federal or state deferred income taxes have been provided thereon. If we were to make a distribution of any portion of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign jurisdictions. Because our availability to utilize foreign tax credits is uncertain, it is not practicable to determine the domestic federal income tax liability that would be payable if such earnings were no longer considered to be reinvested indefinitely.

Prior to the fourth quarter of the fiscal year ended May 31, 2016, the undistributed earnings of all foreign subsidiaries, except for certain Canadian subsidiaries, were considered to be indefinitely reinvested outside the United States. During the fourth quarter of the fiscal year ended May 31, 2016, as a result of the merger with Heartland, we changed our assertion with respect to our Canadian subsidiaries and all undistributed earnings in Canada are now considered to be indefinitely reinvested, resulting in the reversal, through income tax expense, of net deferred tax liabilities of \$12.7 million that were previously recorded on the balance sheet.

A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes to our valuation allowance during the 2016 fiscal transition period and the fiscal years ended May 31, 2016 and 2015 are summarized below (in thousands):

Balance at May 31, 2014	\$ (7,199)
Utilization of foreign net operating loss carryforwards	3,387
Other	(11)
Balance at May 31, 2015	(3,823)
Allowance for foreign income tax credit carryforward	(7,140)
Allowance for domestic net operating loss carryforwards	(4,474)
Allowance for domestic net unrealized capital loss	(1,526)
Release of allowance of domestic capital loss carryforward	1,746
Other	98
Balance at May 31, 2016	(15,119)
Allowance for domestic net operating loss carryforwards	(1,504)
Release of allowance of domestic net unrealized capital loss	12
Balance at December 31, 2016	<u>\$ (16,611)</u>

The increase in the valuation allowance related to domestic net operating loss carryforwards of \$1.5 million and \$4.5 million for the 2016 fiscal transition period and the year ended May 31, 2016, respectively, relates to acquired carryforwards from the merger with Heartland.

Foreign net operating loss carryforwards totaling \$15.0 million and domestic net operating loss carryforwards related to the merger with Heartland totaling \$24.3 million at December 31, 2016 will expire between December 31, 2026 and December 31, 2031 if not utilized. Tax credit carryforwards totaling \$1.4 million at December 31, 2016 will expire between December 31, 2017 and December 31, 2026 if not utilized.

We conduct business globally and file income tax returns in the domestic federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities around the world.

We are no longer subjected to state income tax examinations for years ended on or before May 31, 2008, U.S. federal income tax examinations for fiscal years prior to 2013 and U.K. federal income tax examinations for years ended on or before May 31, 2013.

A reconciliation of the beginning and ending amounts of unrecognized income tax benefits, excluding penalties and interest, for the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015, and 2014 is as follows:

	Seven Months Ended December 31,	Year Ended May 31,		
	2016	2016	2015	2014
	(in thousands)			
Balance at the beginning of the year	\$ 7,803	\$ 2,559	\$ 67,576	\$ 53,763
Additions based on income tax positions related to the current year	4,626	287	6,311	8,551
Additions related to acquisition	6,149	6,151	—	—
Additions for income tax positions of prior years	247	753	512	296
Effect of foreign currency fluctuations on income tax positions	(3)	2	(5,713)	5,303
Reductions for income tax positions of prior years	(906)	(123)	(32)	(60)
Settlements with income tax authorities	—	(1,826)	(504)	(277)
Changes in judgment regarding tax position	—	—	(65,591)	—
Balance at the end of the year	<u>\$ 17,916</u>	<u>\$ 7,803</u>	<u>\$ 2,559</u>	<u>\$ 67,576</u>

As a result of events that occurred in the fourth quarter of the year ended May 31, 2015, management concluded that it was more likely than not that the tax positions in a foreign jurisdiction, for which we had recorded estimated liabilities of \$65.6 million in other noncurrent liabilities on our consolidated balance sheet, would be sustained on their technical merits based on information available as of May 31, 2015. Therefore, the liability and corresponding deferred tax assets were eliminated as of May 31, 2015. The uncertain tax positions had been subject to an ongoing examination in that foreign jurisdiction by the tax authority. Discussions and correspondence between the tax authority and us during the fourth quarter of fiscal 2015 indicated that the likelihood of the positions being sustained had increased. Subsequent to May 31, 2015, we received a final closure notice regarding the examination resulting in no adjustments to taxable income related to this matter for the tax returns filed for the periods ended May 31, 2010 through May 31, 2013. The unrecognized income tax benefits were effectively settled in the year ended May 31, 2016 with this final closure notice.

As of December 31, 2016, the total amount of gross unrecognized income tax benefits that, if recognized, would affect the provision for income taxes is \$13.3 million.

We recognize interest and penalties related to unrecognized income tax benefits in interest expense and selling, general and administrative expenses, respectively, in our consolidated statements of income.

## **NOTE 10—SHAREHOLDERS' EQUITY**

We make repurchases of our common stock mainly through the use of open market purchases and accelerated share repurchase programs ("ASR's"). Our board of directors has authorized management to repurchase up to a specified amount of our common stock, of which \$88.7 million may yet be repurchased as of December 31, 2016. On January 5, 2017, our board of directors increased the authorization to repurchase up to \$300 million of our common stock.

### ***2016 Fiscal Transition Period***

During the 2016 fiscal transition period we repurchased and retired 2.5 million shares of our common stock at a cost of \$178.2 million, or an average of \$70.77 per share, including commissions, through open market repurchase plans.

### ***Fiscal Year Ended May 31, 2016***

On April 25, 2016, we entered into an ASR with a financial institution to repurchase an aggregate of \$50 million of our common stock. In exchange for an up-front payment of \$50 million, the financial institution committed to deliver a number of shares during the ASR's purchase period, which ended on June 23, 2016. On April 26, 2016, 545,777 shares were initially delivered to us. At May 31, 2016, we accounted for the variable component of remaining shares to be delivered under the ASR as a forward contract indexed to our common stock which met all of the applicable criteria for equity classification. On June 23, 2016, an additional 127,435 shares were delivered to us. The total number of shares delivered under this ASR was 673,212 shares at an average price of \$74.27 per share.

In addition to shares repurchased under the ASR during the fiscal year ended May 31, 2016, we repurchased and retired 1.5 million shares of our common stock at a cost of \$85.9 million, or an average of \$58.12 per share, including commissions, through open market repurchase plans.

### ***Fiscal Year Ended May 31, 2015***

On April 10, 2015, we entered into an ASR with a financial institution to repurchase an aggregate of \$100 million of our common stock. In exchange for an up-front payment of \$100 million, we repurchased 1,955,730 shares at an average price of \$51.13 per share. In addition to shares repurchased under the ASR during the fiscal year ended May 31, 2015, we repurchased and retired 7.0 million shares of our common stock at a cost of \$269.0 million, or an average of \$38.19 per share, including commissions.

### ***Fiscal Year Ended May 31, 2014***

On October 7, 2013, we entered into an ASR with a financial institution to repurchase an aggregate of \$100 million of our common stock. In exchange for an upfront payment of \$100 million, we repurchased 3.2 million shares at an average price of \$30.48 per share. In addition to shares repurchased under the ASR during the fiscal year ended May 31, 2014, we repurchased and retired 12.4 million shares of our common stock at a cost of \$355.0 million, or an average of \$28.65 per share, including commissions.

## **NOTE 11—SHARE-BASED AWARDS AND OPTIONS**

We have granted nonqualified stock options and restricted stock awards to key employees, officers and directors under a long-term incentive plan, which permits grants of equity to employees, officers, directors and consultants. A total of 14.0 million shares of our common stock was reserved and made available for issuance pursuant to awards granted under the plan. The awards are held in escrow and released upon the grantee's satisfaction of conditions of the award certificate.

The following table summarizes share-based compensation expense and the related income tax benefit recognized for our share-based awards and stock options:

	Seven Months Ended December 31,		Year Ended May 31,	
	2016	2016	2015	2014
	(in thousands)			
Share-based compensation expense	\$ 18,707	\$ 30,809	\$ 21,056	\$ 29,793
Income tax benefit	\$ 6,582	\$ 9,879	\$ 6,907	\$ 7,126

#### ***Restricted Stock***

Restricted stock awards vest over a period of time, provided, however, that if the grantee is not employed by us on the vesting date, the shares are forfeited. Restricted shares cannot be sold or transferred until they have vested. Restricted stock granted before the fiscal year ended May 31, 2015 vests in equal installments on each of the first four anniversaries of the grant date. Restricted stock granted during the fiscal years ended May 31, 2015 and thereafter either vest in equal installments on each of the first three anniversaries of the grant date or cliff vest at the end of a three-year service period. The grant date fair value of restricted stock, which is based on the quoted market value of our common stock at the closing of the award date, is recognized as share-based compensation expense on a straight-line basis over the vesting period.

#### ***Performance Units***

Certain of our executives have been granted performance units under our long-term incentive plan. Performance units are performance-based restricted stock units that, after a performance period, may convert into common shares, which may be restricted. The number of shares is dependent upon the achievement of certain performance measures during the performance period. The target number of performance units and any market-based performance measures ("at threshold," "target," and "maximum") are set by the compensation committee of our board of directors. Performance units are converted only after the compensation committee certifies performance based on pre-established goals.

The compensation committee may set a range of possible performance-based outcomes for performance units. For awards with only performance conditions, we recognize compensation expense on a straight-line basis over the performance period using the grant date fair value of the award, which is based on the number of shares expected to be earned according to the level of achievement of performance goals. If the number of shares expected to be earned were to change at any time during the performance period, we would make a cumulative adjustment to share-based compensation expense based on the revised number of shares expected to be earned. The performance period for awards granted range from 28 months to three years.

#### ***Leveraged Performance Units***

During the fiscal year ended May 31, 2015, certain executives were granted performance units that we refer to as "leveraged performance units," or "LPUs." LPUs contain a market condition based on our relative stock price growth over a three-year performance period. The LPUs contain a minimum threshold performance which, if not met, would result in no payout. The LPUs also contain a maximum award opportunity set as a fixed dollar and fixed number of shares. After the three-year performance period, one-third of any earned units converts to unrestricted common stock. The remaining two-thirds convert to restricted stock that will vest in equal installments on each of the first two anniversaries of the conversion date. We recognize share-based compensation expense based on the grant date fair value of the LPUs, as determined by use of a Monte Carlo model, on a straight-line basis over the requisite service period for each separately vesting portion of the LPU award.

#### ***Total Shareholder Return Units***

During the fiscal year ended May 31, 2014, certain of our executives were granted total shareholder return ("TSR") units, which are performance-based restricted stock units that are earned based on our total shareholder return over a three-year performance period compared to companies in the S&P 500. Once the performance results are certified, TSR units convert into unrestricted common stock. Depending on our performance, the grantee may earn up to 200% of the target number of shares. The

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target number of TSR units for each executive is set by the compensation committee. We recognize share-based compensation expense based on the grant date fair value of the TSR units, as determined by use of a Monte Carlo model, on a straight-line basis over the vesting period.

The following table summarizes the changes in invested share-based awards for the 2016 fiscal transition period and for the fiscal years ended May 31, 2016, 2015 and 2014 (shares in thousands):

	Shares	Weighted-Average Grant-Date Fair Value
Unvested at May 31, 2013	2,192	\$22.00
Granted	1,088	23.55
Vested	(1,286)	22.31
Forfeited	(240)	22.40
Unvested at May 31, 2014	1,754	22.72
Granted	954	36.21
Vested	(648)	23.17
Forfeited	(212)	27.03
Unvested at May 31, 2015	1,848	28.97
Granted	461	57.04
Vested	(633)	27.55
Forfeited	(70)	34.69
Unvested at May 31, 2016	1,606	37.25
Granted	348	74.26
Vested	(639)	31.38
Forfeited	(52)	45.27
Unvested at December 31, 2016	1,263	\$49.55

The total fair value of share-based awards vested was \$20.0 million for the 2016 fiscal transition period and \$17.4 million, \$15.0 million and \$28.7 million, respectively, for the fiscal years ended May 31, 2016, 2015 and 2014.

For these share-based awards, we recognized compensation expense of \$17.2 million for the 2016 fiscal transition period and \$28.8 million, \$19.8 million and \$28.2 million, respectively, for the fiscal years ended May 31, 2016, 2015 and 2014. As of December 31, 2016, there was \$45.5 million of unrecognized compensation expense related to unvested share-based awards that we expect to recognize over a weighted-average period of 2.03 years. Our share-based award plans provide for accelerated vesting under certain conditions.

#### ***Employee Stock Purchase Plan***

We have an employee stock purchase plan under which the sale of 4.8 million shares of our common stock has been authorized. Employees may designate up to the lesser of \$25,000 or 20% of their annual compensation for the purchase of our common stock. The price for shares purchased under the plan is 85% of the market value on the last day of each calendar quarter. As of December 31, 2016, 2.4 million shares had been issued under this plan, with 2.4 million shares reserved for future issuance. We recognized compensation expense for the plan of \$0.4 million in the 2016 fiscal transition period, \$0.7 million in the fiscal year ended May 31, 2016, and \$0.6 million in each of the fiscal years ended May 31, 2015 and 2014.

The weighted-average grant-date fair value of each designated option issued under this plan during the 2016 fiscal transition period, and the fiscal years ended May 31, 2016, 2015 and 2014 was approximately \$9.28, \$7.56, \$4.04 and \$3.57, respectively, which represents the fair value of the 15% discount.

**Stock Options**

Stock options are granted with an exercise price equal to 100% of fair market value of our common stock on the date of grant and have a term often years. Stock options granted before the fiscal year ended May 31, 2015 vest in equal installments on each of the first four anniversaries of the grant date. Stock options granted during the fiscal year ended May 31, 2015 and thereafter vest in equal installments on each of the first three anniversaries of the grant date. Our stock option plans provide for accelerated vesting under certain conditions.

The following summarizes changes in unvested stock option activity for the 2016 fiscal transition period and the fiscal years ended May 31, 2016, 2015 and 2014:

	Options (in thousands)	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at May 31, 2013	3,530	\$17.55	3.5	\$23.9
Granted	—	—		
Forfeited	(130)	19.69		
Exercised	(1,868)	15.20		24.9
Outstanding at May 31, 2014	1,532	20.36	3.8	21.3
Granted	306	35.78		
Forfeited	(48)	27.42		
Exercised	(896)	20.15		16.6
Outstanding at May 31, 2015	894	25.47	5.2	23.9
Granted	145	55.92		
Forfeited	(8)	16.10		
Exercised	(220)	22.46		9.4
Outstanding at May 31, 2016	811	31.81	5.8	36.8
Granted	73	74.66		
Forfeited	(1)	22.93		
Exercised	(124)	22.26		6.5
Outstanding at December 31, 2016	759	\$37.51	6.0	\$24.5
Options vested and exercisable at December 31, 2016	502	\$28.88	4.7	\$20.3

We recognized compensation expense for stock options of \$1.1 million during the 2016 fiscal transition period and \$1.4 million, \$0.7 million and \$1.0 million during the fiscal years ended May 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, we had \$1.7 million of unrecognized compensation expense related to unvested stock options that we expect to recognize over a weighted-average period of 1.9 years.

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The weighted-average grant-date fair value of stock options granted during the 2016 fiscal transition period was \$21.87 and \$15.60 and \$8.45, respectively, during the fiscal years ended May 31, 2016 and 2015. Fair value was estimated on the date of grant using the Black-Scholes valuation model with the following weighted-average assumptions:

	Seven Months Ended	Year Ended May 31,	
	December 31,	2016	2015
	2016	2016	2015
Risk-free interest rate	1.05%	1.62%	1.57%
Expected volatility	31.58%	28.65%	23.65%
Dividend yield	0.06%	0.10%	0.13%
Expected term (years)	5	5	5

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

**NOTE 12—SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental cash flow disclosures for the periods presented are as follows:

	Seven Months	Year Ended May 31,		
	Ended December 31,	2016	2015	2014
	2016	2016	2015	2014
		(in thousands)		
Income taxes (refunded) paid, net	\$ (3,680)	\$ 89,684	\$ 66,726	\$ 94,938
Interest paid	\$ 93,624	\$ 58,730	\$ 36,537	\$ 33,214

**NOTE 13—NONCONTROLLING INTERESTS**

The following table is the reconciliation of net income attributable to noncontrolling interests to comprehensive income attributable to noncontrolling interests for the periods presented:

	Seven Months	Year Ended May 31,		
	Ended December 31,	2016	2015	2014
	2016	2016	2015	2014
		(in thousands)		
Net income attributable to noncontrolling interests	\$ 12,752	\$ 18,551	\$ 31,075	\$ 24,666
Foreign currency translation attributable to noncontrolling interests	(8,417)	471	(28,597)	7,054
Comprehensive income attributable to noncontrolling interests	\$ 4,335	\$ 19,022	\$ 2,478	\$ 31,720

**NOTE 14—ACCUMULATED OTHER COMPREHENSIVE LOSS**

The changes in the accumulated balances for each component of other comprehensive loss, net of tax, were as follows for the periods presented:

	Foreign Currency Translation	Unrealized Losses on Hedging Activities	Other	Accumulated Other Comprehensive Loss
	(in thousands)			
Balance at May 31, 2013	\$ (11,530)	\$ —	\$ (3,532)	\$ (15,062)
Other comprehensive income, net of tax	13,113	—	173	13,286
Balance at May 31, 2014	1,583	—	(3,359)	(1,776)
Other comprehensive loss, net of tax	(179,892)	(3,874)	(450)	(184,216)
Balance at May 31, 2015	(178,309)	(3,874)	(3,809)	(185,992)
Other comprehensive loss, net of tax	(56,329)	(2,881)	(848)	(60,058)
Balance at May 31, 2016	(234,638)	(6,755)	(4,657)	(246,050)
Other comprehensive income (loss), net of tax	(83,812)	6,115	1,030	(76,667)
Balances at December 31, 2016	<u>\$ (318,450)</u>	<u>\$ (640)</u>	<u>\$ (3,627)</u>	<u>\$ (322,717)</u>

**NOTE 15—SEGMENT INFORMATION****Information About Profit and Assets**

We evaluate performance and allocate resources based on the operating income of each operating segment. The operating income of each operating segment includes the revenues of the segment less expenses that are directly related to those revenues. Operating overhead, shared costs and certain compensation costs are included in Corporate in the following table. Interest and other income, interest and other expense and provision for income taxes are not allocated to the individual segments. We do not evaluate the performance of or allocate resources to our operating segments using asset data. The accounting policies of the reportable operating segments are the same as those described in the Summary of Significant Accounting Policies in "Note 1 - Basis of Presentation and Summary of Significant Accounting Policies."



Information on segments and reconciliations to consolidated revenues and consolidated operating income are as follows for the periods presented:

	Seven Months Ended December 31,	Year Ended May 31,		
	2016	2016	2015	2014
(in thousands)				
<b>Revenues <sup>(1)</sup>:</b>				
North America	\$ 1,650,616	\$ 2,052,623	\$ 1,968,890	\$ 1,808,992
Europe	403,823	631,900	615,966	587,463
Asia-Pacific	148,457	213,627	188,862	157,781
Consolidated revenues	<u>\$ 2,202,896</u>	<u>\$ 2,898,150</u>	<u>\$ 2,773,718</u>	<u>\$ 2,554,236</u>
<b>Operating income (loss) <sup>(1)</sup>:</b>				
North America	\$ 233,850	\$ 307,626	\$ 293,139	\$ 272,251
Europe	145,767	244,837	240,014	209,334
Asia-Pacific	37,530	50,743	39,697	30,845
Corporate <sup>(2)</sup>	(179,196)	(178,262)	(116,253)	(106,931)
Consolidated operating income	<u>\$ 237,951</u>	<u>\$ 424,944</u>	<u>\$ 456,597</u>	<u>\$ 405,499</u>
<b>Depreciation and amortization <sup>(1)</sup>:</b>				
North America	\$ 208,198	\$ 128,618	\$ 81,051	\$ 60,970
Europe	26,178	40,194	39,910	48,589
Asia-Pacific	10,385	13,935	9,973	6,139
Corporate	2,810	5,134	6,571	6,371
Consolidated depreciation and amortization	<u>\$ 247,571</u>	<u>\$ 187,881</u>	<u>\$ 137,505</u>	<u>\$ 122,069</u>

<sup>(1)</sup> Revenues, operating income and depreciation and amortization reflect the effect of acquired businesses from the respective dates of acquisition. Notably, on April 22, 2016, we merged with Heartland as further discussed in "Note 2 - Acquisitions."

<sup>(2)</sup> During the seven months ended December 31, 2016 and the fiscal year ended May 31, 2016, operating loss for Corporate included costs of \$91.6 million and \$51.3 million, respectively, incurred in connection with our merger with Heartland. These merger-related costs are included in selling, general and administrative expenses in the consolidated statements of income.

**Enterprise-Wide Information**

As a percentage of our total consolidated revenues, revenues from external customers in the United States and the United Kingdom were 67% and 10%, respectively, for the 2016 fiscal transition period. Revenues from external customers in the United States, the United Kingdom, and Canada were 61%, 10% and 10%, respectively, for the fiscal year ended May 31, 2016; 60%, 13% and 11%, respectively, for the fiscal year ended May 31, 2015; and 58%, 13% and 13%, respectively, for the fiscal year ended May 31, 2014. Revenues from external customers are attributed to individual countries based on the location of the customer arrangements. Our results of operations and our financial condition are not significantly reliant upon any single customer.

Long-lived assets, excluding goodwill and other intangible assets, by location as of December 31, 2016, May 31, 2016 and 2015 were as follows:

	December 31,	May 31,	
	2016	2016	2015
	(in thousands)		
United States	\$ 413,499	\$ 394,716	\$ 284,257
Foreign countries	112,871	98,962	89,886
	<u>\$ 526,370</u>	<u>\$ 493,678</u>	<u>\$ 374,143</u>

**NOTE 16—COMMITMENTS AND CONTINGENCIES**

**Leases and Purchase Obligations**

We conduct a major part of our operations using leased facilities and equipment. Many of these operating leases have renewal and purchase options and provide that we pay the cost of property taxes, insurance and maintenance. Rent expense on all operating leases for the 2016 fiscal transition period and for the fiscal years ended May 31, 2016, 2015 and 2014 was \$19.2 million, \$19.7 million, \$17.5 million, and \$16.0 million, respectively. We also have contractual obligations related to service arrangements with suppliers for fixed or minimum amounts.

Future minimum payments at December 31, 2016 for noncancelable operating leases and purchase obligations were as follows:

	Operating Leases	Purchase Obligations
	(in thousands)	
<b><u>Years ending December 31:</u></b>		
2017	\$ 36,885	\$ 43,567
2018	33,952	40,191
2019	30,010	36,464
2020	23,333	30,748
2021	21,173	28,051
Thereafter	137,715	36,383
Total future minimum payments	<u>\$ 283,068</u>	<u>\$ 215,404</u>

**Legal**

We are party to a number of claims and lawsuits incidental to our business. In our opinion, the liabilities, if any, which may ultimately result from the outcome of such matters, individually or in the aggregate, are not expected to have a material adverse effect on our financial position, liquidity, results of operations or cash flows.

Heartland, Heartland's board of directors, Global Payments, Data Merger Sub One, Inc. (a wholly owned subsidiary of Global Payments, which we refer to as "Data Merger Sub One") and Data Merger Sub Two, LLC (a wholly owned subsidiary of Global Payments, which we refer to as "Data Merger Sub Two") were named as defendants in a putative class action lawsuit challenging the proposed merger with Heartland. The suit was filed on January 8, 2016 in the New Jersey Superior Court, Mercer County, Civil Division, and is captioned Kevin Merchant v. Heartland Payment Systems, et al, L-45-16. The complaint alleges, among other things, that the directors of Heartland breached their fiduciary duties to Heartland stockholders by agreeing to sell Heartland for inadequate consideration, agreeing to improper deal protection terms in the merger agreement, failing to properly value Heartland, and filing a materially incomplete registration statement with the Securities and Exchange Commission. In addition, the complaint alleges that Heartland, Global Payments, Merger Sub One, and Merger Sub Two aided and abetted these purported breaches of fiduciary duty. On April 12, 2016, solely to avoid the costs, disruption and distraction of further litigation, and without admitting the validity of any allegations made by the plaintiff, Heartland and Global Payments reached an agreement

to settle the suit and entered into a Memorandum of Understanding to document the terms and conditions for settlement of the suit. The court has approved the settlement and the parties are working with a class administrator to notify the class members. The settlement releases all claims that were or could have been brought challenging any aspect of the merger with Heartland or the merger agreement related thereto. The terms of the settlement will be disclosed to stockholders before final approval of the proposed settlement. The settlement is not expected to have a material adverse effect on our financial position, liquidity, results of operations or cash flows.

**Operating Taxes**

We are subject to certain taxes that are not derived based on earnings (e.g., sales, gross receipts, property, value-added and other business taxes). During the course of operations, we must interpret the meaning of various operating tax regulations in the United States and in the foreign jurisdictions in which we do business. Taxing authorities in those various jurisdictions may arrive at different interpretations of applicable tax laws and regulations which could result in the payment of additional taxes in those jurisdictions.

**BIN/ICA Agreements**

We have entered into sponsorship or depository and processing agreements with certain banks. These agreements allow us to use the banks' identification numbers ("BIN") for Visa transactions and an Interbank Card Association ("ICA") number for MasterCard transactions, to clear credit card transactions through Visa and MasterCard. Certain of these agreements contain financial covenants, and we were in compliance with all such covenants as of December 31, 2016.

**NOTE 17—COMPARATIVE DATA FOR SEVEN MONTHS ENDED DECEMBER 31, 2015 (UNAUDITED)**

The condensed consolidated statement of income for the seven months ended December 31, 2015 is as follows (in thousands, except per share data):

	<b>Seven Months Ended December 31, 2015</b>
	<u>                    </u>
Revenues	\$ 1,730,070
Operating expenses:	
Cost of service	638,700
Selling, general and administrative	784,823
	<u>1,423,523</u>
Operating income	<u>306,547</u>
Interest and other income	2,886
Interest and other expense	(32,149)
	<u>(29,263)</u>
Income before income taxes	277,284
Provision for income taxes	(70,089)
Net income	<u>207,195</u>
Less: Net income attributable to noncontrolling interests	(12,351)
Net income attributable to Global Payments	<u>\$ 194,844</u>
Earnings per share attributable to Global Payments:	
Basic earnings per share	\$ 1.50
Diluted earnings per share	<u>\$ 1.49</u>

**NOTE 18—QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

Summarized quarterly results for the 2016 fiscal transition period and the fiscal years ended May 31, 2016 and 2015 are as follows (in thousands, except per share data):

	Quarter Ended			
	August 31, 2016		November 30, 2016	
<b>2016 Fiscal Transition Period</b>				
Revenues	\$	939,492	\$	941,821
Operating income		121,106		105,267
Net income		92,458		52,615
Net income attributable to Global Payments		85,093		49,452
Basic earnings per share attributable to Global Payments		0.55		0.32
Diluted earnings per share attributable to Global Payments		0.55		0.32

	Quarter Ended			
	August 31, 2015	November 30, 2015	February 29, 2016	May 31, 2016
<b>Fiscal Year Ended May 31, 2016</b>				
Revenues	\$	748,796	\$	722,350
Operating income		137,772		123,165
Net income		93,048		83,078
Net income attributable to Global Payments		86,646		78,771
Basic earnings per share attributable to Global Payments		0.66		0.61
Diluted earnings per share attributable to Global Payments		0.66		0.60

	Quarter Ended			
	August 31, 2014	November 30, 2014	February 28, 2015	May 31, 2015
<b>Fiscal Year Ended May 31, 2015</b>				
Revenues	\$	704,895	\$	697,291
Operating income		124,398		123,984
Net income		84,434		85,256
Net income attributable to Global Payments		75,366		74,781
Basic earnings per share attributable to Global Payments		0.55		0.55
Diluted earnings per share attributable to Global Payments		0.55		0.55

The quarterly financial data in the table above for the 2016 fiscal transition period and the fiscal quarter ended May 31, 2016 include the results of Heartland from the date of the merger and reflect the refinancing and increase of our corporate credit facility. Additionally, operating income, net income, net income attributable to Global Payments and basic and diluted EPS, reflected incremental expenses associated with the integration of Heartland of \$6.1 million, \$45.2 million, \$30.6 million and \$36.6 million, respectively, during the quarterly fiscal periods ended February 29, 2016, May 31, 2016, August 31, 2016 and November 30, 2016. See "Note 2 - Acquisitions" in the notes to the accompanying consolidated financial statements for further discussion of the merger with Heartland.

Net income, net income attributable to Global Payments and basic and diluted earnings per share in the table above reflect for the quarter ended August 31, 2016 reflect a gain of \$41.2 million recorded in connection with the sale of our membership interests in Visa Europe.

Operating income, net income, net income attributable to Global Payments and basic and diluted EPS for the fiscal quarter ended May 31, 2015 include the effects of employee termination costs of \$6.3 million (pre-tax) and a \$1.2 million (pre-tax) charge for a transaction tax associated with the acquisition of Realex. Net income, net income attributable to Global Payments and basic

and diluted EPS for the fiscal quarter ended May 31, 2015 also include the effect of the reversal of interest expense of \$3.6 million (pre-tax) that had been previously accrued related to a previously unrecognized tax benefit. An out-of-period immaterial correction related to the measurement of certain deferred tax assets was recorded in the fiscal quarter ended May 31, 2015 as a charge to income tax expense of \$14.3 million (\$6.8 million of which related to the fiscal quarter ended August 31, 2014). This charge was offset by a corresponding income tax benefit recorded in the fiscal quarter ended May 31, 2015 related to a change in judgment regarding the tax rate at which those same deferred tax assets were expected to be realized in conjunction with the recognition of the previously unrecognized tax benefit related to an uncertain tax position in a foreign jurisdiction. Both amounts are included in the foreign income taxes line of the reconciliation between the federal statutory rate and the effective tax rate for the fiscal year ended May 31, 2015 in "Note 9 - Income Tax."

**GLOBAL PAYMENTS INC.  
SCHEDULE II**

**Valuation & Qualifying Accounts**

(a)	(b)	(c)	(d)	(e)
Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Deductions: Uncollectible Accounts Write- Offs (Recoveries)	Balance at End of Period
<b>Allowance for doubtful accounts</b>				
May 31, 2014	\$ 509	\$ 174	\$ 282	\$ 401
May 31, 2015	401	324	257	468
May 31, 2016	468	515	630	353
December 31, 2016	353	4,283	3,544	1,092
<b>Reserve for operating losses-merchant card processing<sup>(1)</sup></b>				
May 31, 2014	\$ 2,318	\$ 8,658	\$ 9,252	\$ 1,724
May 31, 2015	1,724	4,928	5,366	1,286
May 31, 2016	1,286	3,729	2,555	2,460
December 31, 2016	2,460	4,629	4,810	2,279
<b>Reserve for sales allowances-merchant card processing<sup>(1)</sup></b>				
May 31, 2014	\$ 961	\$ 1,330	\$ 1,690	\$ 601
May 31, 2015	601	7,974	3,646	4,929
May 31, 2016	4,929	3,571	7,450	1,050
December 31, 2016	1,050	2,637	3,027	660
<b>Reserve for operating losses-check guarantee processing</b>				
May 31, 2014	\$ 3,144	\$ 11,916	\$ 12,062	\$ 2,998
May 31, 2015	2,998	9,578	9,892	2,684
May 31, 2016	2,684	22,827	20,643	4,868
December 31, 2016	4,868	15,204	14,286	5,786
<b>Deferred income tax asset valuation allowance</b>				
May 31, 2014	\$ 28,464	\$ (21,265)	\$ —	\$ 7,199
May 31, 2015	7,199	(3,376)	—	3,823
May 31, 2016	3,823	11,296	—	15,119
December 31, 2016	15,119	1,492	—	16,611

<sup>(1)</sup>Included in settlement processing obligations.

## ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A - CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

As of December 31, 2016, management carried out, under the supervision and with the participation of our principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2016, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

### Management's Report on Internal Control over Financial Reporting

Our management team is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the *Internal Control - Integrated Framework (2013)*. As of December 31, 2016, management believes that the Company's internal control over financial reporting is effective based on those criteria. Our independent registered public accounting firm has issued an audit report on our internal control over financial reporting, which is included in this Transition Report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness 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. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Due to such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, such risk.

### Changes in Internal Control over Financial Reporting

In April 2016, we completed our merger with Heartland, which is being integrated into our North America business. As part of our ongoing integration activities, we have applied our controls and procedures to the Heartland business and augmented our company-wide controls to reflect the risks inherent in an acquisition of this magnitude; and, our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016 includes the acquired operations of Heartland. There were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the period from our most recent quarterly period ended November 30, 2016 to the end of the 2016 fiscal transition period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B - OTHER INFORMATION

None.



**PART III**

**ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

We incorporate by reference in this Item 10 information about our directors, executive officers and our corporate governance contained under the headings "Proposal 1: Election of Directors" and "Biographical Information About Our Executive Officers" and information about compliance with Section 16(a) of the Securities and Exchange Act of 1934 by our directors and executive officers under the heading "Additional Information-Section 16(a) Beneficial Ownership Reporting Compliance" from our proxy statement to be delivered in connection with our 2017 Annual Meeting of Shareholders to be held on May 3, 2017 (the "2017 Proxy Statement").

We have adopted codes of ethics that apply to our senior financial officers. The senior financial officers include our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Controller or persons performing similar functions. The code of ethics is available in the investor relations section of our website at [www.globalpaymentsinc.com](http://www.globalpaymentsinc.com), and as indicated in the section entitled "Where To Find Additional Information" in Part I to this Transition Report. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of our code of ethics by posting such information on our website at the address and location set forth above.

**ITEM 11 - EXECUTIVE COMPENSATION**

We incorporate by reference in this Item 11 the information relating to executive and director compensation and the report of the Compensation Committee contained under the headings "Compensation, Discussion, and Analysis," and "Corporate Governance-Director Compensation" from our 2017 Proxy Statement.

**ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

We incorporate by reference in this Item 12 the information relating to ownership of our common stock by certain persons contained under the headings "Common Stock Ownership-Common Stock Ownership of Management" and "Common Stock Ownership-Common Stock Ownership by Certain Other Persons" from our 2017 Proxy Statement.

The following table provides certain information as of December 31, 2016 concerning the shares of our common stock that may be issued under existing equity compensation plans. For more information on these plans, see "Note 10 - Shareholders' Equity" in the notes to the accompanying consolidated financial statements.

<u>Plan category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	757,529	\$ 37.51	13,256,941
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>757,529</b>	<b>\$ 37.51</b>	<b>13,256,941</b>

Includes 11,846,453 shares authorized for issuance under the 2011 Incentive Plan, all of which are available for issuance pursuant to grants of full-value stock awards. Also includes 129,342 shares authorized under the Amended and Restated 2005 Incentive Plan and 168,432 shares authorized under the 2000 Director Option Plan. We do not intend to issue shares under either the Amended and Restated 2005 Incentive Plan or the 2000 Director Option Plan.

**ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

We incorporate by reference in this Item 13 the information regarding certain relationships and related transactions between us and our affiliates and the independence of our directors contained under the headings "Additional Information--Relationships and Related Party Transactions" and "Corporate Governance--Board Independence" from our 2017 Proxy Statement.

**ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES**

We incorporate by reference in this Item 14 the information regarding principal accounting fees and services contained under the heading "Proposal Four: Ratification of Reappointment of Auditors" from our 2017 Proxy Statement.

**PART IV****ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES:**

(a) The following documents are filed as part of this Transition Report on Form 10-K:

**(1) Consolidated Financial Statements**

Our consolidated financial statements listed below are set forth in “Item 8 - Financial Statements and Supplementary Data” of this Transition Report on Form 10-K:

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**(2) Financial Statement Schedules**

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All other schedules to our consolidated financial statements have been omitted because they are not required under the related instruction or are inapplicable, or because we have included the required information in our consolidated financial statements or related notes.

**(3) Exhibits**

The following exhibits either (i) are filed with this Transition Report on Form 10-K or (ii) have previously been filed with the SEC and are incorporated in this Item 15 by reference to those prior filings.

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of December 15, 2015, by and among Global Payments Inc., Data Merger Sub One, Inc., Data Merger Sub Two, LLC and Heartland Payment Systems, Inc., incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed December 17, 2015.++
2.2	Agreement and Plan of Merger, dated as of January 23, 2014, by and among the Company, Payment Processing, Inc. and, solely for the limited purposes set forth therein, certain additional parties thereto, incorporated by reference to Exhibit 2.1 to the Company’s Quarterly Report on Form 10-Q filed April 3, 2014.++
2.3	Asset Purchase Agreement, dated September 30, 2014, by and among Certegy Check Services, Inc., Global Payments Gaming Services, Inc. and Global Payments Inc., incorporated by reference to Exhibit 2.1 to the Company’s Quarterly Report on Form 10-Q filed April 8, 2015.
2.4	Sale and Purchase Agreement, dated as of September 15, 2014, by and among Global Payments Australia 2 Pty Ltd, Global Payments Inc., as guarantor, shareholders of Ezi Holdings Pty Ltd and certain guarantors of the sellers, incorporated by reference to the Company’s Quarterly Report on Form 10-Q filed January 8, 2015.
3.1	Second Amended and Restated Articles of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K filed July 25, 2013.
3.2	Seventh Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed July 28, 2016.
10.1	Amended and Restated Debt Commitment Letter, dated as of January 8, 2016, by and among Global Payments Inc., Bank of America, N.A., Merrill, Lynch, Pierce, Fenner and Smith Incorporated and certain other lenders named therein, incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed January 14, 2016.

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10.2	First Amendment to the Second Amended and Restated Credit Agreement, First Amendment to the Second Amended and Restated Term Loan Agreement, First Amendment to the Company Guaranties and First Amendment to the Subsidiary Guaranties, dated as of February 26, 2016, by and among the Company and Global Payments Direct, Inc., as borrowers, Bank of America, N.A., as administrative agent, and certain other lenders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 1, 2016.
10.3	Second Amendment to Second Amended and Restated Credit Agreement, dated as of October 31, 2016, by and among the Company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on January 9, 2017.
10.4	First Amended and Restated Marketing Alliance Agreement with HSBC Bank plc, dated June 12, 2009, incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K filed July 28, 2009, File No. 001-16111.
10.5+	Amended and Restated 2000 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K filed July 28, 2010.
10.6+	Third Amended and Restated 2000 Non-Employee Director Stock Option Plan, dated June 1, 2004, incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed July 30, 2007, File No. 001-16111.
10.7+	Amendment to the Third Amended and Restated 2000 Non-Employee Director Stock Option Plan, dated March 28, 2007, incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed July 30, 2007, File No. 001-16111.
10.8+	Third Amended and Restated 2005 Incentive Plan, dated December 31, 2008, incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed April 6, 2009, File No. 001-16111.
10.9+	Form of Non-Statutory Stock Option Award pursuant to the Amended and Restated 2005 Incentive Plan, incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed January 8, 2007, File No. 001-16111.
10.10+	Non-Qualified Deferred Compensation Plan, incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed September 16, 2010.
10.11+*	Amended and Restated 2011 Incentive Plan.
10.12+	Form of Restricted Stock Award pursuant to the 2011 Incentive Plan (2013 and 2014 fiscal years), incorporated by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K filed July 29, 2014.
10.13+	Form of Performance Unit Award (Performance Units) (2013 fiscal year) pursuant to the 2011 Incentive Plan, incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K filed July 29, 2014.
10.14+	Form of Performance Unit Award (Performance Units) (2014 fiscal year) pursuant to the 2011 Incentive Plan, incorporated by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K filed July 29, 2014.
10.15+	Form of Performance Unit Award (TSRs) (2013 fiscal year) pursuant to the 2011 Incentive Plan, incorporated by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K filed July 29, 2014.
10.16+	Form of Performance Unit Award (TSRs) (2014 fiscal year) pursuant to the 2011 Incentive Plan, incorporated by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K filed July 29, 2014.
10.17+	Form of Restricted Stock Award pursuant to the 2011 Incentive Plan (2015 and 2016 fiscal year), incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed April 8, 2015.
10.18+	Form of Stock Option Award pursuant to the 2011 Incentive Plan (2015 fiscal year), incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed April 8, 2015.
10.19+	Form of Performance Unit Award Certificate pursuant to the 2011 Incentive Plan (2015 fiscal year), incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed April 8, 2015.
10.20+	Form of Performance Unit Award Certificate (Leveraged Performance Units) pursuant to the 2011 Incentive Plan (2015 fiscal year), incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed April 8, 2015.
10.21+	Form of Stock Option Award (2015 and 2016 fiscal year), incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed October 2, 2014.
10.22+	Form of Performance Unit Award Certificate pursuant to 2011 Incentive Plan (2016 fiscal year), incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed October 7, 2015.
10.23+	Form of Performance Unit Award Certificate pursuant to the 2011 Incentive Plan, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed October 5, 2016.
10.24+	Fourth Amended and Restated Non-Employee Director Compensation Plan, dated September 28, 2016 (sub-plan to the Global Payments Inc. 2011 Incentive Plan, dated September 27, 2011), incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed January 9, 2017.
10.25+	Annual Performance Plan, adopted August 29, 2012 (sub-plan to the Global Payments Inc. 2011 Incentive Plan, dated September 27, 2011), incorporated by reference to Exhibit 10.52 to the Company's Annual Report on Form 10-K filed July 25, 2013.

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10.26+	Employment Agreement by and between the Company and Jeffrey S. Sloan, dated as of March 30, 2010, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 1, 2010.
10.27+	Amendment to Employment Agreement by and between the Company and Jeffrey S. Sloan, dated as of October 1, 2013, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed October 7, 2013.
10.28+	Second Amendment to Employment Agreement by and between the Company and Jeffrey S. Sloan, dated as of August 29, 2014, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed October 2, 2014.
10.29+	Employment Agreement by and between the Company and David E. Mangum, dated as of March 1, 2010, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 3, 2010.
10.30+	Amendment to Employment Agreement by and between the Company and David E. Mangum, dated as of August 29, 2014, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed October 2, 2014.
10.31+	Employment Agreement by and between the Company and Cameron M. Bready, dated as of May 21, 2014, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 23, 2014.
10.32+	Employment Agreement by and between the Company and Guido F. Sacchi, dated as of December 1, 2013, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed January 8, 2014.
10.33+	Employment Agreement by and between the Company and David L. Green, dated as of December 1, 2013, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed January 8, 2014.
10.34+	Employment Agreement by and between the Company and Michelle V. Bonam-Ball, dated as of November 2, 2015, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed January 11, 2016.
10.35+	Change in Control, Non-Competition and Non-Solicitation Agreement between David M. Sheffield and the Company, dated as of April 6, 2015, incorporated by reference to the Company's Quarterly Report on Form 10-Q filed April 8, 2015.
21.1*	List of Subsidiaries.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Powers of Attorney of Directors.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of CEO.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of CFO.
32.1*	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
101.1*	The following financial information from the Transition Report on Form 10-K for the period from June 1, 2016 to December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Changes in Equity; and (vi) the Notes to Consolidated Financial Statements.

\* Filed herewith.

+ Management contract or compensatory plan or arrangement.

++ Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and Global Payments Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule and/or exhibit upon request.

**(b) Exhibits**

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**(c) Financial Statement Schedules**

See Item 15(a)(2) above.



**GLOBAL PAYMENTS INC.  
AMENDED AND RESTATED 2011 INCENTIVE PLAN**

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**GLOBAL PAYMENTS INC.  
AMENDED AND RESTATED 2011 INCENTIVE PLAN**

**ARTICLE 1  
PURPOSE**

1.1. **GENERAL.** The purpose of the Global Payments Inc. Amended and Restated 2011 Incentive Plan (the "Plan") is to promote the success, and enhance the value, of Global Payments Inc. (the "Company"), by linking the personal interests of employees, officers, directors and consultants of the Company or any Affiliate (as defined below) to those of Company shareholders and by providing such persons with an incentive for outstanding performance. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of employees, officers, directors and consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent. Accordingly, the Plan permits the grant of incentive awards from time to time to selected employees, officers, directors and consultants of the Company and its Affiliates.

**ARTICLE 2  
DEFINITIONS**

2.1. **DEFINITIONS.** When a word or phrase appears in this Plan with the initial letter capitalized, and the word or phrase does not commence a sentence, the word or phrase shall generally be given the meaning ascribed to it in this Section or in Section 1.1 unless a clearly different meaning is required by the context. The following words and phrases shall have the following meanings:

- (a) "Affiliate" means (i) any Subsidiary or Parent, or (ii) an entity that directly or through one or more intermediaries controls, is controlled by or is under common control with, the Company, as determined by the Committee.
- (b) "Award" means an award of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units, Performance Awards, Dividend Equivalents, Other Stock-Based Awards, or any other right or interest relating to Stock or cash, granted to a Participant under the Plan.
- (c) "Award Certificate" means a written document, in such form as the Committee prescribes from time to time, setting forth the terms and conditions of an Award. Award Certificates may be in the form of individual award agreements or certificates or a program document describing the terms and provisions of an Award or series of Awards under the Plan. The Committee may provide for the use of electronic, internet or other non-paper Award Certificates, and the use of electronic, internet or other non-paper means for the acceptance thereof and actions thereunder by a Participant.
- (d) "Beneficial Owner" shall have the meaning given such term in Rule 13d-3 of the General Rules and Regulations under the 1934 Act.
- (e) "Board" means the Board of Directors of the Company.
- (f) "Cause" as a reason for a Participant's termination of employment shall have the meaning assigned such term in the employment, severance or similar agreement, if any, between such Participant and the Company or an Affiliate, provided, however that if there is no such employment, severance or similar agreement in which such term is defined, and unless otherwise defined in the applicable Award Certificate, "Cause" shall mean any of the following acts by the Participant, as determined by the Committee: gross neglect of duty; prolonged absence from duty without the consent of the Company; material breach by the Participant of any published Company code of conduct or code of ethics; intentionally engaging in activity that is in conflict with or adverse to the business or other interests of the Company; or willful misconduct, misfeasance or malfeasance of duty which is reasonably determined to be detrimental to the Company. With respect to a Participant's termination of directorship, "Cause" means an act or failure to act that constitutes cause for removal of a director under applicable Georgia law. The determination of the Committee as to the existence of "Cause" shall be conclusive on the Participant and the Company.
- (g) "Change in Control" means and includes the occurrence of any one of the following events:

(i) during any consecutive 12-month period, individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of such Board, provided that any person becoming a director after the beginning of such 12-month period and whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to the election or removal of directors ("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; or

(ii) any Person becomes a Beneficial Owner, directly or indirectly, of either (A) 35% or more of the then-outstanding shares of common stock of the Company ("Company Common Stock") or (B) securities of the Company representing 35% or more of the combined voting power of the Company's then outstanding securities eligible to vote for the election of directors (the "Company Voting Securities"); provided, however, that for purposes of this subsection (ii), the following acquisitions of Company Common Stock or Company Voting Securities shall not constitute a Change in Control: (w) an acquisition directly from the Company, (x) an acquisition by the Company or a Subsidiary, (y) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, or (z) an acquisition pursuant to a Non-Qualifying Transaction (as defined in subsection (iii) below); or

(iii) the consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or a Subsidiary (a "Reorganization"), or the sale or other disposition of all or substantially all of the Company's assets (a "Sale") or the acquisition of assets or stock of another corporation or other entity (an "Acquisition"), unless immediately following such Reorganization, Sale or Acquisition: (A) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the outstanding Company Common Stock and outstanding Company Voting Securities immediately prior to such Reorganization, Sale or Acquisition beneficially own, directly or indirectly, more than 35% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Reorganization, Sale or Acquisition (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets or stock either directly or through one or more subsidiaries, the "Surviving Entity") in substantially the same proportions as their ownership, immediately prior to such Reorganization, Sale or Acquisition, of the outstanding Company Common Stock and the outstanding Company Voting Securities, as the case may be, and (B) no Person (other than (x) the Company or any Subsidiary, (y) the Surviving Entity or its ultimate parent entity, or (z) any employee benefit plan (or related trust) sponsored or maintained by any of the foregoing) is the Beneficial Owner, directly or indirectly, of 35% or more of the total common stock or 35% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Entity, and (C) at least a majority of the members of the board of directors of the Surviving Entity were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization, Sale or Acquisition (any Reorganization, Sale or Acquisition which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a "Non-Qualifying Transaction").

- (h) "Code" means the Internal Revenue Code of 1986, as amended from time to time. For purposes of this Plan, references to sections of the Code shall be deemed to include references to any applicable regulations thereunder and any successor or similar provision.
- (i) "Committee" means the committee of the Board described in Article 4.
- (j) "Company" means Global Payments Inc., a Georgia corporation, or any successor corporation.
- (k) "Continuous Service" means the absence of any interruption or termination of service as an employee, officer, director or consultant of the Company or any Affiliate, as applicable; provided, however, that for purposes of an Incentive Stock Option "Continuous Service" means the absence of any interruption or termination of service as an employee of the Company or any Parent or Subsidiary, as applicable, pursuant to applicable tax regulations. Continuous Service shall not be considered interrupted in the following cases: (i) a Participant transfers employment between the Company and an Affiliate or between Affiliates, or (ii) in the

discretion of the Committee as specified at or prior to such occurrence, in the case of a spin-off, sale or disposition of the Participant's employer from the Company or any Affiliate, (iii) a Participant transfers from being an employee of the Company or an Affiliate to being a director of the Company or of an Affiliate, or vice versa, (iv) in the discretion of the Committee as specified at or prior to such occurrence, a Participant transfers from being an employee of the Company or an Affiliate to being a consultant to the Company or of an Affiliate, or vice versa, or (v) any leave of absence authorized in writing by the Company prior to its commencement; provided, however, that for purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 91st day of such leave any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Whether military, government or other service or other leave of absence shall constitute a termination of Continuous Service shall be determined in each case by the Committee at its discretion, and any determination by the Committee shall be final and conclusive; provided, however, that for purposes of any Award that is subject to Code Section 409A, the determination of a leave of absence must comply with the requirements of a "bona fide leave of absence" as provided in Treas. Reg. Section 1.409A-1(h).

- (l) "Covered Employee" means a covered employee as defined in Code Section 162(m) (3).
- (m) "Deferred Stock Unit" means a right granted to a Participant under Article 9 to receive Shares (or the equivalent value in cash or other property if the Committee so provides) at a future time as determined by the Committee, or as determined by the Participant within guidelines established by the Committee in the case of voluntary deferral elections.
- (n) "Disability" of a Participant means that the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident or health plan covering employees of the Participant's employer. If the determination of Disability relates to an Incentive Stock Option, Disability means Permanent and Total Disability as defined in Section 22(e)(3) of the Code. In the event of a dispute, the determination of whether a Participant has incurred a Disability will be made by the Committee and may be supported by the advice of a physician competent in the area to which such Disability relates.
- (o) "Dividend Equivalent" means a right granted to a Participant under Article 12.
- (p) "Effective Date" has the meaning assigned such term in Section 3.1.
- (q) "Eligible Participant" means an employee (including a leased employee), officer, director or consultant of the Company or any Affiliate.
- (r) "Exchange" means any national securities exchange on which the Stock may from time to time be listed or traded.
- (s) "Fair Market Value," on any date, means (i) if the Stock is listed on a securities exchange, the closing sales price on the principal such exchange on such date or, in the absence of reported sales on such date, the closing sales price on the immediately preceding date on which sales were reported, or (ii) if the Stock is not listed on a securities exchange, the mean between the bid and offered prices as quoted by the applicable interdealer quotation system for such date, provided that if the Stock is not quoted on an interdealer quotation system or it is determined that the fair market value is not properly reflected by such quotations, Fair Market Value will be determined by such other method as the Committee determines in good faith to be reasonable and in compliance with Code Section 409A.
- (t) "Full-Value Award" means an Award other than in the form of an Option or SAR, and which is settled by the issuance of Stock (or at the discretion of the Committee, settled in cash valued by reference to Stock value).
- (u) "Good Reason" (or a similar term denoting constructive termination) has the meaning, if any, assigned such term in the employment, consulting, severance or similar agreement, if any, between a Participant and the

Company or an Affiliate; provided, however, that if there is no such employment, consulting, severance or similar agreement in which such term is defined, "Good Reason" shall have the meaning, if any, given such term in the applicable Award Certificate. If not defined in either such document, the term "Good Reason" as used herein shall not apply to a particular Award.

- (v) "Grant Date" of an Award means the first date on which all necessary corporate action has been taken to approve the grant of the Award as provided in the Plan, or such later date as is determined and specified as part of that authorization process. Notice of the grant shall be provided to the grantee within a reasonable time after the Grant Date.
- (w) "Incentive Stock Option" means an Option that is intended to be an incentive stock option and meets the requirements of Section 422 of the Code or any successor provision thereto.
- (x) "Independent Directors" means those members of the Board of Directors who qualify at any given time as (a) an "independent" director under the applicable rules of each Exchange on which the Shares are listed, (b) a "non-employee" director under Rule 16b-3 of the 1934 Act, and (c) an "outside" director under Section 162(m) of the Code.
- (y) "Non-Employee Director" means a director of the Company who is not a common law employee of the Company or an Affiliate.
- (z) "Nonstatutory Stock Option" means an Option that is not an Incentive Stock Option.
- (aa) "Option" means a right granted to a Participant under Article 7 of the Plan to purchase Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.
- (bb) "Other Stock-Based Award" means a right, granted to a Participant under Article 13, that relates to or is valued by reference to Stock or other Awards relating to Stock.
- (cc) "Parent" means a corporation, limited liability company, partnership or other entity which owns or beneficially owns a majority of the outstanding voting stock or voting power of the Company. Notwithstanding the above, with respect to an Incentive Stock Option, Parent shall have the meaning set forth in Section 424(e) of the Code.
- (dd) "Participant" means an Eligible Participant who has been granted an Award under the Plan; provided that in the case of the death of a Participant, the term "Participant" refers to a beneficiary designated pursuant to Section 14.4 or the legal guardian or other legal representative acting in a fiduciary capacity on behalf of the Participant under applicable state law and court supervision.
- (ee) "Performance Award" means any award granted under the Plan pursuant to Article 10.
- (ff) "Person" means any individual, entity or group, within the meaning of Section 3(a)(9) of the 1934 Act and as used in Section 13(d)(3) or 14(d)(2) of the 1934 Act.
- (gg) "Plan" means the Global Payments Inc. Amended and Restated 2011 Incentive Plan, as amended from time to time.
- (hh) "Prior Plan" means the Global Payments Inc. Third Amended and Restated 2005 Incentive Plan, as amended from time to time.
- (ii) "Qualified Performance-Based Award" means an Award that is either (i) intended to qualify for the Section 162(m) Exemption and is made subject to performance goals based on Qualified Business Criteria as set forth in Section 11.2, or (ii) an Option or SAR having an exercise price equal to or greater than the Fair Market Value of the underlying Stock as of the Grant Date.
- (jj) "Qualified Business Criteria" means one or more of the Business Criteria listed in Section 11.2 upon which performance goals for certain Qualified Performance-Based Awards may be established by the Committee.

- (kk) “Restricted Stock” means Stock granted to a Participant under Article 9 that is subject to certain restrictions and to risk of forfeiture.
- (ll) “Restricted Stock Unit” means the right granted to a Participant under Article 9 to receive shares of Stock (or the equivalent value in cash or other property if the Committee so provides) in the future, which right is subject to certain restrictions and to risk of forfeiture.
- (mm) “Retirement” in the case of an employee means resignation or termination of employment without Cause from the Company, a Parent or Subsidiary after age 65 with ten years of continual service or “credited service” as reflected in the official human resources records of the employing company. “Retirement” in the case of a Non-Employee Director of the Company means departure from the Board without Cause after age 65 or the failure to be re-elected or re-nominated as a director at any age.
- (nn) “Section 162(m) Exemption” means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code or any successor provision thereto.
- (oo) “Shares” means shares of the Company’s Stock. If there has been an adjustment or substitution pursuant to Article 15, the term “Shares” shall also include any shares of stock or other securities that are substituted for Shares or into which Shares are adjusted pursuant to Article 15.
- (pp) “Stock” means the no par value common stock of the Company and such other securities of the Company as may be substituted for Stock pursuant to Article 15.
- (qq) “Stock Appreciation Right” or “SAR” means a right granted to a Participant under Article 8 to receive a payment equal to the difference between the Fair Market Value of a Share as of the date of exercise of the SAR over the base price of the SAR, all as determined pursuant to Article 8.
- (rr) “Subsidiary” means any corporation, limited liability company, partnership or other entity, domestic or foreign, of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company. Notwithstanding the above, with respect to an Incentive Stock Option, Subsidiary shall have the meaning set forth in Section 424(f) of the Code.
- (ss) “1933 Act” means the Securities Act of 1933, as amended from time to time.
- (tt) “1934 Act” means the Securities Exchange Act of 1934, as amended from time to time.

**ARTICLE 3  
EFFECTIVE TERM OF PLAN**

3.1. EFFECTIVE DATE. The Plan will become effective on the date that it is approved by the Company’s shareholders (the “Effective Date”).

3.2. TERMINATION OF PLAN. Unless earlier terminated as provided herein, the Plan shall continue in effect until the tenth anniversary of the Effective Date or, if the shareholders approve an amendment to the Plan that increases the number of Shares subject to the Plan, the tenth anniversary of the date of such approval. The termination of the Plan on such date shall not affect the validity of any Award outstanding on the date of termination, which shall continue to be governed by the applicable terms and conditions of the Plan. Notwithstanding the foregoing, no Incentive Stock Options may be granted more than ten (10) years after the Effective Date.

**ARTICLE 4  
ADMINISTRATION**

4.1. COMMITTEE. The Plan shall be administered by a Committee appointed by the Board (which Committee shall consist of at least two directors) or, at the discretion of the Board from time to time, the Plan may be administered by the Board. It is intended that at least two of the directors appointed to serve on the Committee shall be Independent Directors and that any such members of the Committee who do not so qualify shall abstain from participating in any decision to make or

administer Awards that are made to Eligible Participants who at the time of consideration for such Award (i) are persons subject to the short-swing profit rules of Section 16 of the 1934 Act, or (ii) are reasonably anticipated to become Covered Employees during the term of the Award. However, the mere fact that a Committee member shall fail to qualify as an Independent Director or shall fail to abstain from such action shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan. The members of the Committee shall be appointed by, and may be changed at any time and from time to time in the discretion of, the Board. Unless and until changed by the Board, the Compensation Committee of the Board is designated as the Committee to administer the Plan. The Board may reserve to itself any or all of the authority and responsibility of the Committee under the Plan or may act as administrator of the Plan for any and all purposes. To the extent the Board has reserved any authority and responsibility or during any time that the Board is acting as administrator of the Plan, it shall have all the powers and protections of the Committee hereunder, and any reference herein to the Committee (other than in this Section 4.1) shall include the Board. To the extent any action of the Board under the Plan conflicts with actions taken by the Committee, the actions of the Board shall control. Notwithstanding any of the foregoing, grants of Awards to Non-Employee Directors under the Plan shall be made only in accordance with the terms, conditions and parameters of a plan, program or policy for the compensation of Non-Employee Directors that is approved and administered by a committee of the Board consisting solely of Independent Directors.

4.2. ACTION AND INTERPRETATIONS BY THE COMMITTEE For purposes of administering the Plan, the Committee may from time to time adopt rules, regulations, guidelines and procedures for carrying out the provisions and purposes of the Plan and make such other determinations, not inconsistent with the Plan, as the Committee may deem appropriate. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent it deems necessary to carry out the intent of the Plan. The Committee's interpretation of the Plan, any Awards granted under the Plan, any Award Certificate and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Affiliate, the Company's or an Affiliate's independent certified public accountants, Company counsel or any executive compensation consultant or other professional retained by the Company or the Committee to assist in the administration of the Plan. No member of the Committee will be liable for any good faith determination, act or omission in connection with the Plan or any Award.

4.3. AUTHORITY OF COMMITTEE. Except as provided in Sections 4.1 and 4.5 hereof, the Committee has the exclusive power, authority and discretion to:

- (a) Grant Awards;
  - (b) Designate Participants;
  - (c) Determine the type or types of Awards to be granted to each Participant;
  - (d) Determine the number of Awards to be granted and the number of Shares or dollar amount to which an Award will relate;
  - (e) Determine the terms and conditions of any Award granted under the Plan;
  - (f) Prescribe the form of each Award Certificate, which need not be identical for each Participant;
  - (g) Decide all other matters that must be determined in connection with an Award;
  - (h) Establish, adopt or revise any rules, regulations, guidelines or procedures as it may deem necessary or advisable to administer the Plan;
  - (i) Make all other decisions and determinations that may be required under the Plan or as the Committee deems necessary or advisable to administer the Plan;
  - (j) Amend the Plan or any Award Certificate as provided herein; provided that any such amendment shall not be effective unless it is in writing; and
  - (k) Adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of the United States or any non-U.S. jurisdictions in which the Company or any
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Affiliate may operate, in order to assure the viability of the benefits of Awards granted to participants located in the United States or such other jurisdictions and to further the objectives of the Plan.

Notwithstanding the foregoing, grants of Awards to Non-Employee Directors hereunder shall (i) be subject to the applicable award limits set forth in Section 5.1 hereof, and (ii) be made only in accordance with the terms, conditions and parameters of a plan, program or policy for the compensation of Non-Employee Directors as in effect from time to time that is approved and administered by the Board. The Committee may not make discretionary grants hereunder to Non-Employee Directors.

#### 4.4. DELEGATION.

- (a) Administrative Duties. The Committee may delegate to one or more of its members or to one or more officers of the Company or an Affiliate or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any individuals to whom it has delegated duties or powers as aforesaid may employ one or more individuals to render advice with respect to any responsibility the Committee or such individuals may have under this Plan.
- (b) Special Committee. The Board may, by resolution or by specific delegation to the Compensation Committee, expressly delegate to a special committee, consisting of one or more directors who may but need not be officers of the Company, the authority, within specified parameters as to the number and terms of Awards, to (i) designate officers and/or employees of the Company or any of its Affiliates to be recipients of Awards under the Plan, and (ii) to determine the number of such Awards to be received by any such Participants; provided, however, that such delegation of duties and responsibilities to an officer of the Company may not be made with respect to the grant of Awards to eligible participants (a) who are subject to Section 16(a) of the 1934 Act at the Grant Date, or (b) who as of the Grant Date are reasonably anticipated to be become Covered Employees during the term of the Award. The acts of such delegates shall be treated hereunder as acts of the Board and such delegates shall report regularly to the Compensation Committee regarding the delegated duties and responsibilities and any Awards so granted.

4.5. INDEMNIFICATION. Each person who is or shall have been a member of the Committee, or of the Board, or an officer of the Company to whom authority was delegated in accordance with this Article 4 shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability, or expense is a result of his or her own willful misconduct or except as expressly provided by statute. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's articles of incorporation or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

### **ARTICLE 5 SHARES SUBJECT TO THE PLAN**

5.1. NUMBER OF SHARES. Subject to adjustment as provided in Sections 5.2 and Section 15.1, the aggregate number of Shares reserved and available for issuance pursuant to Awards granted under the Plan shall be 14,000,000. Subject to adjustment as provided in Section 15.1, the maximum number of Shares that may be issued upon exercise of Incentive Stock Options granted under the Plan shall be 14,000,000. From and after the Effective Date, no further awards shall be granted under the Prior Plan and the Prior Plan shall remain in effect only so long as awards granted thereunder shall remain outstanding.

5.2. SHARE COUNTING. Shares covered by an Award shall be subtracted from the Plan share reserve as of the Grant Date as provided in subsection (a) below, but shall be added back to the Plan share reserve or otherwise treated in accordance with subsections (b) through (i) of this Section 5.2.

- (a) Awards of Options and Stock Appreciation Rights shall count against the number of Shares remaining available for issuance pursuant to Awards granted under the Plan as four tenths (0.4) of one Share for each Share covered by such Awards, and Full Value Awards shall count against the number of Shares remaining

available for issuance pursuant to Awards granted under the Plan as one (1) Share for each Share covered by such Awards.

- (b) The full number of Shares subject to the Option shall count against the number of Shares remaining available for issuance pursuant to Awards granted under the Plan, even if the exercise price of an Option is satisfied through net-settlement or by delivering Shares to the Company (by either actual delivery or attestation).
- (c) Upon exercise of Stock Appreciation Rights that are settled in Shares, the full number of Stock Appreciation Rights (rather than the net number of Shares actually delivered upon exercise) shall count against the number of Shares remaining available for issuance pursuant to Awards granted under the Plan.
- (d) Shares withheld from an Award to satisfy tax withholding requirements shall count against the number of Shares remaining available for issuance pursuant to Awards granted under the Plan, and Shares delivered by a participant to satisfy tax withholding requirements shall not be added to the Plan share reserve.
- (e) To the extent that an Award is canceled, terminates, expires, is forfeited or lapses for any reason, any unissued or forfeited Shares subject to the Award will be added back to the Plan share reserve and again be available for issuance pursuant to Awards granted under the Plan.
- (f) Shares subject to Awards settled in cash will be added back to the Plan share reserve and again be available for issuance pursuant to Awards granted under the Plan.
- (g) To the extent that the full number of Shares subject to a Full Value Award is not issued for any reason, including by reason of failure to achieve maximum performance goals, the unissued Shares originally subject to the Award will be added back to the Plan share reserve and again be available for issuance pursuant to Awards granted under the Plan.
- (h) Substitute Awards granted pursuant to Section 14.9 of the Plan shall not count against the Shares otherwise available for issuance under the Plan under Section 5.1.
- (i) Subject to applicable Exchange requirements, shares available under a shareholder-approved plan of a company acquired by the Company (as appropriately adjusted to Shares to reflect the transaction) may be issued under the Plan pursuant to Awards granted to individuals who were not employees of the Company or its Affiliates immediately before such transaction and will not count against the maximum share limitation specified in Section 5.1.

5.3. STOCK DISTRIBUTED. Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

5.4. LIMITATION ON AWARDS. Notwithstanding any provision in the Plan to the contrary (but subject to adjustment as provided in Article 15):

- (a) Options. The maximum aggregate number of Shares subject to time-vesting Options granted under the Plan in any 12-month period to any one Participant shall be 1,200,000.
  - (b) SARs. The maximum number of Shares subject to time-vesting Stock Appreciation Rights granted under the Plan in any 12-month period to any one Participant shall be 1,200,000.
  - (c) Performance Awards. With respect to any one 12-month period (i) the maximum amount that may be paid to any one Participant for Performance Awards payable in cash or property other than Shares shall be \$10,000,000, and (ii) the maximum number of Shares that may be paid to any one Participant for Performance Awards payable in Stock shall be the greater of 1,200,000 Shares or Shares having a Fair Market Value of \$30,000,000 as of the Grant Date of the Award. For purposes of applying these limits in the case of multi-year performance periods, the amount of cash or property or number of Shares deemed paid with respect to any one 12-month period is the total amount payable or Shares earned for the performance period divided by the number of 12-month periods in the performance period.
  - (d) Non-Employee Director Compensation. The maximum number of Shares subject to Awards granted during a single fiscal year to any Non-Employee Director, taken together with any cash fees paid to such Non-
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Employee Director during the fiscal year, shall not exceed \$600,000 in total value (calculating the value of any such Awards based on the grant date fair value of such Awards for financial reporting purposes); provided, that the Board may make exceptions to this limit for (i) individual Non-Employee Directors in extraordinary circumstances, or (ii) a Non-Employee Director who serves as Chairman of the Board or Lead Director, in each case as the Board may determine in its sole discretion, so long as (A) the aggregate limit does not exceed \$850,000 in total value during a fiscal year and (B) the Non-Employee Director receiving such additional compensation does not participate in the decision to award such compensation or in other contemporaneous compensation decisions involving Non-Employee Directors.

5.5. MINIMUM VESTING REQUIREMENTS. Except in the case of substitute Awards granted pursuant to Section 14.9, Full-Value Awards granted under the Plan to an Eligible Participant shall either (i) be subject to a minimum vesting period of three years (which may include graduated vesting within such three-year period), or one year if the vesting is based on performance criteria other than continued service, or (ii) be granted solely in exchange for foregone cash compensation. Notwithstanding the foregoing, (i) in order to maintain flexibility to determine the appropriate treatment of such Full-Value Awards, the Committee may permit and authorize acceleration of vesting of such Full-Value Awards in the event of the Participant's termination of service or the occurrence of a Change in Control (subject to the requirements of Article 11 in the case of Qualified Performance-Based Awards), and (ii) this Section 5.5 shall not apply to Awards granted to Non-Employee Directors.

## **ARTICLE 6 ELIGIBILITY**

6.1. GENERAL. Awards may be granted only to Eligible Participants. Incentive Stock Options may be granted only to Eligible Participants who are employees of the Company or a Parent or Subsidiary as defined in Section 424(c) and (f) of the Code. Eligible Participants who are service providers to an Affiliate may be granted Options or SARs under this Plan only if the Affiliate qualifies as an "eligible issuer of service recipient stock" within the meaning of §1.409A-1(b)(5)(iii)(E) of the final regulations under Code Section 409A.

## **ARTICLE 7 STOCK OPTIONS**

7.1. GENERAL. The Committee is authorized to grant Options to Participants on the following terms and conditions:

- (a) Exercise Price. The exercise price per Share under an Option shall be determined by the Committee, provided that the exercise price for any Option (other than an Option issued as a substitute Award pursuant to Section 14.9) shall not be less than the Fair Market Value as of the Grant Date.
- (b) Prohibition on Repricing. Except as otherwise provided in Section 15.1, without the prior approval of the stockholders of the Company: (i) the exercise price of an Option may not be reduced, directly or indirectly; (ii) an Option may not be cancelled in exchange for cash, other Awards or Option or SARs with an exercise or base price that is less than the exercise price of the original Option, or otherwise, and (iii) the Company may not repurchase an Option for value (in cash or otherwise) if the current Fair Market Value of the Shares underlying the Option is lower than the exercise price per share of the Option.
- (c) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, subject to Section 7.1(e), and may include in the Award Certificate a provision that an Option that is otherwise exercisable and has an exercise price that is less than the Fair Market Value of the Stock on the last day of its term will be automatically exercised on such final date of the term by means of a "net exercise," thus entitling the optionee to Shares equal to the intrinsic value of the Option on such exercise date, less the number of Shares required for tax withholding. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised or vested.
- (d) Payment. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, and the methods by which Shares shall be delivered or deemed to be delivered to Participants. As determined by the Committee at or after the Grant Date, payment of the exercise price of an Option may be made, in whole or in part, in the form of (i) cash or cash equivalents, (ii) delivery (by either actual delivery or attestation) of previously-acquired Shares based on the Fair Market Value of the Shares on

the date the Option is exercised, (iii) withholding of Shares from the Option based on the Fair Market Value of the Shares on the date the Option is exercised, (iv) broker-assisted market sales, or (v) any other "cashless exercise" arrangement.

- (e) Exercise Term. Except for Nonstatutory Options granted to Participants outside the United States, no Option granted under the Plan shall be exercisable for more than ten years from the Grant Date.
- (f) No Deferral Feature. No Option shall provide for any feature for the deferral of compensation other than the deferral of recognition of income until the exercise or disposition of the Option.
- (g) No Dividend Equivalents. No Option shall provide for Dividend Equivalents.

7.2. INCENTIVE STOCK OPTIONS. The terms of any Incentive Stock Options granted under the Plan must comply with the requirements of Section 422 of the Code. Without limiting the foregoing, any Incentive Stock Option granted to a Participant who at the Grant Date owns more than 10% of the voting power of all classes of shares of the Company must have an exercise price per Share of not less than 110% of the Fair Market Value per Share on the Grant Date and an Option term of not more than five years. If all of the requirements of Section 422 of the Code (including the above) are not met, the Option shall automatically become a Nonstatutory Stock Option.

## ARTICLE 8 STOCK APPRECIATION RIGHTS

8.1. GRANT OF STOCK APPRECIATION RIGHTS. The Committee is authorized to grant Stock Appreciation Rights to Participants on the following terms and conditions:

- (a) Right to Payment. Upon the exercise of a SAR, the Participant has the right to receive, for each Share with respect to which the SAR is being exercised, the excess, if any, of:
  - (1) The Fair Market Value of one Share on the date of exercise; over
  - (2) The base price of the SAR as determined by the Committee and set forth in the Award Certificate, which shall not be less than the Fair Market Value of one Share on the Grant Date.
- (b) Prohibition on Repricing. Except as otherwise provided in Section 15.1, without the prior approval of the stockholders of the Company: (i) the base price of a SAR may not be reduced, directly or indirectly; (ii) an Option may not be cancelled in exchange for cash, other Awards or Option or SARs with an exercise or base price that is less than the exercise price of the original Option, or otherwise, and (iii) the Company may not repurchase a SAR for value (in cash or otherwise) from a Participant if the current Fair Market Value of the Shares underlying the SAR is lower than the base price per share of the SAR.
- (c) Time and Conditions of Exercise. The Committee shall determine the time or times at which a SAR may be exercised in whole or in part, and may include in the Award Certificate a provision that a SAR that is otherwise exercisable and has a base price that is less than the Fair Market Value of the Stock on the last day of its term will be automatically exercised on such final date of the term, thus entitling the holder to cash or Shares equal to the intrinsic value of the SAR on such exercise date, less the cash or number of Shares required for tax withholding. Except for SARs granted to Participants outside the United States, no SAR shall be exercisable for more than ten years from the Grant Date.
- (d) No Deferral Feature. No SAR shall provide for any feature for the deferral of compensation other than the deferral of recognition of income until the exercise or disposition of the SAR.
- (e) No Dividend Equivalents. No SAR shall provide for Dividend Equivalents.
- (f) Other Terms. All SARs shall be evidenced by an Award Certificate. Subject to the limitations of this Article 8, the terms, methods of exercise, methods of settlement, form of consideration payable in settlement (e.g., cash, Shares or other property), and any other terms and conditions of the SAR shall be determined by the Committee at the time of the grant and shall be reflected in the Award Certificate.

**ARTICLE 9**  
**RESTRICTED STOCK AND STOCK UNITS**

9.1. GRANT OF RESTRICTED STOCK AND STOCK UNITS. The Committee is authorized to make Awards of Restricted Stock, Restricted Stock Units or Deferred Stock Units to Participants in such amounts and subject to such terms and conditions as may be selected by the Committee. An Award of Restricted Stock, Restricted Stock Units or Deferred Stock Units shall be evidenced by an Award Certificate setting forth the terms, conditions, and restrictions applicable to the Award.

9.2. ISSUANCE AND RESTRICTIONS. Restricted Stock, Restricted Stock Units or Deferred Stock Units shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, for example, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, upon the satisfaction of performance goals or otherwise, as the Committee determines at the time of the grant of the Award or thereafter. Except as otherwise provided in an Award Certificate or any special Plan document governing an Award, a Participant shall have none of the rights of a shareholder with respect to Restricted Stock Units or Deferred Stock Units until such time as Shares of Stock are paid in settlement of such Awards.

9.3. DIVIDENDS ON RESTRICTED STOCK. In the case of Restricted Stock, the Committee may provide that ordinary cash dividends declared on the Shares before they are vested (i) will be forfeited, (ii) will be deemed to have been reinvested in additional Shares or otherwise reinvested (subject to Share availability under Section 5.1 hereof and subject to the same vesting provisions as provided for the host Award), (iii) will be credited by the Company to an account for the Participant and accumulated without interest until the date upon which the host Award becomes vested, and any dividends accrued with respect to forfeited Restricted Stock will be reconveyed to the Company without further consideration or any act or action by the Participant, or (iv) in the case of Restricted Stock that is not subject to performance-based vesting, will be paid or distributed to the Participant as accrued (in which case, such dividends must be paid or distributed no later than the 15th day of the 3rd month following the later of (A) the calendar year in which the corresponding dividends were paid to shareholders, or (B) the first calendar year in which the Participant's right to such dividends is no longer subject to a substantial risk of forfeiture). In no event shall dividends with respect to Restricted Stock that is subject to performance-based vesting be paid or distributed until the performance-based vesting provisions of such Restricted Stock lapse.

9.4. FORFEITURE. Subject to the terms of the Award Certificate and except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of Continuous Service during the applicable restriction period or upon failure to satisfy a performance goal during the applicable restriction period, Restricted Stock or Restricted Stock Units that are at that time subject to restrictions shall be forfeited.

9.5. DELIVERY OF RESTRICTED STOCK. Shares of Restricted Stock shall be delivered to the Participant at the Grant Date either by book-entry registration or by delivering to the Participant, or a custodian or escrow agent (including, without limitation, the Company or one or more of its employees) designated by the Committee, a stock certificate or certificates registered in the name of the Participant. If physical certificates representing shares of Restricted Stock are registered in the name of the Participant, such certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

**ARTICLE 10**  
**PERFORMANCE AWARDS**

10.1. GRANT OF PERFORMANCE AWARDS. The Committee is authorized to grant any Award under this Plan, including cash-based Awards, with performance-based vesting criteria, on such terms and conditions as may be selected by the Committee. Any such Awards with performance-based vesting criteria are referred to herein as Performance Awards. The Committee shall have the complete discretion to determine the number of Performance Awards granted to each Participant, subject to Section 5.4, and to designate the provisions of such Performance Awards as provided in Section 4.3. All Performance Awards shall be evidenced by an Award Certificate or a written program established by the Committee, pursuant to which Performance Awards are awarded under the Plan under uniform terms, conditions and restrictions set forth in such written program.

10.2. PERFORMANCE GOALS. The Committee may establish performance goals for Performance Awards which may be based on any criteria selected by the Committee. Such performance goals may be described in terms of Company-wide objectives or in terms of objectives that relate to the performance of the Participant, an Affiliate or a division, region, department or function within the Company or an Affiliate. If the Committee determines that a change in the business,

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operations, corporate structure or capital structure of the Company or the manner in which the Company or an Affiliate conducts its business, or other events or circumstances render performance goals to be unsuitable, the Committee may modify such performance goals in whole or in part, as the Committee deems appropriate. If a Participant is promoted, demoted or transferred to a different business unit or function during a performance period, the Committee may determine that the performance goals or performance period are no longer appropriate and may (i) adjust, change or eliminate the performance goals or the applicable performance period as it deems appropriate to make such goals and period comparable to the initial goals and period, or (ii) make a cash payment to the participant in an amount determined by the Committee. The foregoing two sentences shall not apply with respect to a Performance Award that is intended to be a Qualified Performance-Based Award if the recipient of such award (a) was a Covered Employee on the date of the modification, adjustment, change or elimination of the performance goals or performance period, or (b) in the reasonable judgment of the Committee, may be a Covered Employee on the date the Performance Award is expected to be paid.

## ARTICLE 11 QUALIFIED PERFORMANCE-BASED AWARDS

11.1. OPTIONS AND STOCK APPRECIATION RIGHTS. The provisions of the Plan are intended to ensure that all Options and Stock Appreciation Rights granted hereunder to any Covered Employee shall qualify for the Section 162(m) Exemption.

11.2. OTHER AWARDS. When granting any other Award, the Committee may designate such Award as a Qualified Performance-Based Award, based upon a determination that the recipient is or may be a Covered Employee with respect to such Award, and the Committee wishes such Award to qualify for the Section 162(m) Exemption. If an Award is so designated, the Committee shall establish performance goals for such Award within the time period prescribed by Section 162(m) of the Code based on one or more of the following Qualified Business Criteria, which may be expressed in terms of Company-wide objectives or in terms of objectives that relate to the performance of an Affiliate or a division, region, department or function within the Company or an Affiliate:

- Revenue (premium revenue, total revenue or other revenue measures)
- Sales
- Profit (net profit, gross profit, operating profit, economic profit, profit margins or other corporate profit measures)
- Earnings (EBIT, EBITDA, earnings per share, or other corporate earnings measures)
- Net income (before or after taxes, operating income or other income measures)
- Cash (cash flow, cash generation or other cash measures)
- Stock price or performance
- Total shareholder return (stock price appreciation plus reinvested dividends divided by beginning share price)
- Economic value added
- Return measures (including, but not limited to, return on assets, capital, equity, investments or sales, and cash flow return on assets, capital, equity, or sales);
- Market share
- Improvements in capital structure
- Expenses (expense management, expense ratio, expense efficiency ratios or other expense measures)
- Business expansion (acquisitions)
- Internal rate of return or increase in net present value
- Productivity measures
- Cost reduction measures
- Strategic plan development and implementation

Performance goals with respect to the foregoing Qualified Business Criteria may be specified in absolute terms, in percentages, or in terms of growth from period to period or growth rates over time, as well as measured relative to the performance of a group of comparator companies, or a published or special index, or a stock market index, that the Committee deems appropriate. Any member of a comparator group or an index that ceases to exist during a measurement period shall be disregarded for the entire measurement period. Performance Goals need not be based upon an increase or positive result under a business criterion and could include, for example, the maintenance of the status quo or the limitation of economic losses (measured, in each case, by reference to a specific business criterion).

11.3. PERFORMANCE GOALS. Each Qualified Performance-Based Award (other than a market-priced Option or SAR) shall be earned, vested and payable (as applicable) only upon the achievement of performance goals established by the Committee based upon one or more of the Qualified Business Criteria, together with the satisfaction of any other conditions,

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such as continued employment, as the Committee may determine to be appropriate; provided, however, that the Committee may provide, either in connection with the grant thereof or by amendment thereafter, that achievement of such performance goals will be waived, in whole or in part, upon (i) the termination of employment of a Participant by reason of death or Disability, or (ii) the occurrence of a Change in Control. Subject to the provisions of Section 5.5, performance periods established by the Committee for any such Qualified Performance-Based Award may be as short as three months and may be any longer period. In addition, the Committee has the right, in connection with the grant of a Qualified Performance-Based Award, to exercise negative discretion to determine that the portion of such Award actually earned, vested and/or payable (as applicable) shall be less than the portion that would be earned, vested and/or payable based solely upon application of the applicable performance goals.

11.4. INCLUSIONS AND EXCLUSIONS FROM PERFORMANCE CRITERIA. The Committee may provide in any Qualified Performance-Based Award, at the time the performance goals are established, that any evaluation of performance shall exclude or otherwise objectively adjust for any specified circumstance or event that occurs during a performance period, including by way of example but without limitation the following: (a) asset write-downs or impairment charges; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results; (d) accruals for reorganization and restructuring programs; (e) unusual or infrequently occurring items as described in Accounting Standards Codification Topic 225-20 (or any successor pronouncements thereto) and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year; (f) acquisitions or divestitures; and (g) foreign exchange gains and losses; and (h) any other specific, unusual or nonrecurring events, or objectively determinable category thereof, including discontinued operations or changes in the Company's fiscal year. To the extent such inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.

11.5. CERTIFICATION OF PERFORMANCE GOALS. Any payment of a Qualified Performance-Based Award granted with performance goals pursuant to Section 11.3 above shall be conditioned on the written certification of the Committee in each case that the performance goals and any other material conditions were satisfied. Except as specifically provided in Section 11.3, no Qualified Performance-Based Award held by a Covered Employee or by an employee who in the reasonable judgment of the Committee may be a Covered Employee on the date of payment, may be amended, nor may the Committee exercise any discretionary authority it may otherwise have under the Plan with respect to a Qualified Performance-Based Award under the Plan, in any manner to waive the achievement of the applicable performance goal based on Qualified Business Criteria or to increase the amount payable pursuant thereto or the value thereof, or otherwise in a manner that would cause the Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption.

11.6. AWARD LIMITS. Section 5.4 sets forth, with respect to any one 12-month period, (i) the maximum number of time-vesting Options or SARs that may be granted to any one Participant, (ii) the maximum amount that may be paid to any one Participant for Performance Awards payable in cash or property other than Shares, and (iii) the maximum number of Shares that may be paid to any one Participant for Performance Awards payable in Stock.

## **ARTICLE 12 DIVIDEND EQUIVALENTS**

12.1. GRANT OF DIVIDEND EQUIVALENTS. The Committee is authorized to grant Dividend Equivalents with respect to Full-Value Awards granted hereunder, subject to such terms and conditions as may be selected by the Committee. Dividend Equivalents shall entitle the Participant to receive payments equal to ordinary cash dividends or distributions with respect to all or a portion of the number of Shares subject to a Full-Value Award, as determined by the Committee. The Committee may provide that Dividend Equivalents (i) will be deemed to have been reinvested in additional Shares or otherwise reinvested, (which shall be subject to the same vesting provisions as provided for the host Award); (ii) will be credited by the Company to an account for the Participant and accumulated without interest until the date upon which the host Award becomes vested, and any Dividend Equivalents accrued with respect to forfeited Awards will be reconveyed to the Company without further consideration or any act or action by the Participant; or (iii) except in the case of Performance Awards, will be paid or distributed to the Participant as accrued (in which case, such Dividend Equivalents must be paid or distributed no later than the 15th day of the 3rd month following the later of (A) the calendar year in which the corresponding dividends were paid to shareholders, or (B) the first calendar year in which the Participant's right to such Dividends Equivalents is no longer subject to a substantial risk of forfeiture). Unless otherwise provided by the Committee, Dividend Equivalents accruing on unvested Full-Value Awards shall be credited by the Company to an account for the Participant and accumulated without interest until the date upon which the host Award becomes vested, and any Dividend Equivalents accrued with respect to forfeited Awards will be reconveyed to the Company without further consideration or any act or action by the Participant. In no event shall Dividend

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Equivalents with respect to a Performance Award be paid or distributed until the performance-based vesting provisions of the Performance Award lapse.

**ARTICLE 13  
STOCK OR OTHER STOCK-BASED AWARDS**

13.1. GRANT OF STOCK OR OTHER STOCK-BASED AWARDS. The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that are payable in, valued in whole or in part by reference to, or otherwise based on or related to Shares, as deemed by the Committee to be consistent with the purposes of the Plan, including without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Shares, and Awards valued by reference to book value of Shares or the value of securities of or the performance of specified Parents or Subsidiaries. The Committee shall determine the terms and conditions of such Awards.

**ARTICLE 14  
PROVISIONS APPLICABLE TO AWARDS**

14.1. AWARD CERTIFICATES. Each Award shall be evidenced by an Award Certificate. Each Award Certificate shall include such provisions, not inconsistent with the Plan, as may be specified by the Committee.

14.2. FORM OF PAYMENT FOR AWARDS. At the discretion of the Committee, payment of Awards may be made in cash, Stock, a combination of cash and Stock, or any other form of property as the Committee shall determine. In addition, payment of Awards may include such terms, conditions, restrictions and/or limitations, if any, as the Committee deems appropriate, including, in the case of Awards paid in the form of Stock, restrictions on transfer and forfeiture provisions. Further, payment of Awards may be made in the form of a lump sum, or in installments, as determined by the Committee.

14.3. LIMITS ON TRANSFER. No right or interest of a Participant in any unexercised or restricted Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or an Affiliate, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or an Affiliate. No unexercised or restricted Award shall be assignable or transferable by a Participant other than by will or the laws of descent and distribution; provided, however, that the Committee may (but need not) permit other transfers (other than transfers for value) where the Committee concludes that such transferability (i) does not result in accelerated taxation, (ii) does not cause any Option intended to be an Incentive Stock Option to fail to be described in Code Section 422(b), and (iii) is otherwise appropriate and desirable, taking into account any factors deemed relevant, including without limitation, state or federal tax or securities laws applicable to transferable Awards.

14.4. BENEFICIARIES. Notwithstanding Section 14.3, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights under the Plan is subject to all terms and conditions of the Plan and any Award Certificate applicable to the Participant, except to the extent the Plan and Award Certificate otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, any payment due to the Participant shall be made to the Participant's estate. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant, in the manner provided by the Company, at any time provided the change or revocation is filed with the Committee.

14.5. STOCK TRADING RESTRICTIONS. All Stock issuable under the Plan is subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal or state securities laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends on any Stock certificate or issue instructions to the transfer agent to reference restrictions applicable to the Stock.

14.6. TREATMENT UPON DEATH. Except as otherwise provided in the Award Certificate or any special Plan document governing an Award or an employment or similar agreement with a Participant, upon the termination of a person's Continuous Service by reason of death:

- (i) all of that Participant's outstanding Options and SARs shall become fully exercisable, and shall thereafter remain exercisable for a period of one (1) year or until the earlier expiration of the original term of the Option or SAR;
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- (ii) all time-based vesting restrictions on that Participant's outstanding Awards shall lapse as of the date of termination; and
- (iii) the payout opportunities attainable under all of that Participant's outstanding performance-based Awards shall be determined as provided in the Award Certificate or any special Plan document governing the Award or an employment or similar agreement with the Participant.

To the extent that this provision causes Incentive Stock Options to exceed the dollar limitation set forth in Code Section 422(d), the excess Options shall be deemed to be Nonstatutory Stock Options.

14.7. **ACCELERATION FOR OTHER REASONS.** Regardless of whether an event has occurred as described in Section 14.6 above, and subject to Section 5.5 as to Full-Value Awards and Article 11 as to Qualified Performance-Based Awards, in order to maintain flexibility to determine the appropriate treatment of such Full-Value Awards, the Committee may in its sole discretion at any time determine that, upon the termination of service of a Participant or the occurrence of a Change in Control, all or a portion of such Participant's Options or SARs shall become fully or partially exercisable, that all or a part of the restrictions on all or a portion of the Participant's outstanding Awards shall lapse, and/or that any performance-based criteria with respect to any Awards held by that Participant shall be deemed to be wholly or partially satisfied, in each case, as of such date as the Committee may, in its sole discretion, declare. The Committee may discriminate among Participants and among Awards granted to a Participant in exercising its discretion pursuant to this Section 14.7. Unless otherwise provided by the Committee at the time of a Participant's Retirement, or as otherwise provided in the Award Certificate or any special Plan document or separate agreement with a Participant governing an Award, in the case of acceleration upon the Participant's Retirement, any Awards in the nature of rights that may be exercised shall remain exercisable until the earlier of (i) the original expiration of the Award, or (ii) the fifth anniversary of the Participant's Retirement.

14.8. **FORFEITURE EVENTS.** Awards under the Plan shall be subject to any compensation recoupment policy that the Company may adopt from time to time that is applicable by its terms to the Participant. In addition, the Committee may specify in an Award Certificate that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, (i) termination of employment for cause, (ii) violation of material Company or Affiliate policies, (iii) breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant, (iv) other conduct by the Participant that is detrimental to the business or reputation of the Company or any Affiliate, or (v) a later determination that the vesting of, or amount realized from, a Performance Award was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria, whether or not the Participant caused or contributed to such material inaccuracy.

14.9. **SUBSTITUTE AWARDS.** The Committee may grant Awards under the Plan in substitution for stock and stock-based awards held by employees of another entity who become employees of the Company or an Affiliate as a result of a merger or consolidation of the former employing entity with the Company or an Affiliate or the acquisition by the Company or an Affiliate of property or stock of the former employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

## **ARTICLE 15 CHANGES IN CAPITAL STRUCTURE**

15.1. **MANDATORY ADJUSTMENTS.** In the event of a nonreciprocal transaction between the Company and its shareholders that causes the per-share value of the Stock to change (including, without limitation, any stock dividend, stock split, spin-off, rights offering, or large nonrecurring cash dividend), the authorization limits under Section 5.1 and 5.4 shall be adjusted proportionately, and the Committee shall make such adjustments to the Plan and Awards as it deems necessary, in its sole discretion, to prevent dilution or enlargement of rights immediately resulting from such transaction. Action by the Committee may include: (i) adjustment of the number and kind of shares that may be delivered under the Plan; (ii) adjustment of the number and kind of shares subject to outstanding Awards; (iii) adjustment of the exercise price of outstanding Awards or the measure to be used to determine the amount of the benefit payable on an Award; and (iv) any other adjustments that the Committee determines to be equitable. Notwithstanding the foregoing, the Committee shall not make any adjustments to outstanding Options or SARs that would constitute a modification or substitution of the stock right under Treas. Reg. Sections 1.409A-1(b)(5)(v) that would be treated as the grant of a new stock right or change in the form of payment for purposes of Code Section 409A. Without limiting the foregoing, in the event of a subdivision of the outstanding Stock (stock-split), a declaration of a dividend payable in Shares, or a combination or consolidation of the outstanding Stock into a lesser number of Shares, the authorization limits under Section 5.1 and 5.4 shall automatically be adjusted proportionately, and the Shares then

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subject to each Award shall automatically, without the necessity for any additional action by the Committee, be adjusted proportionately without any change in the aggregate purchase price therefor.

15.2 DISCRETIONARY ADJUSTMENTS. Upon the occurrence or in anticipation of any corporate event or transaction involving the Company (including, without limitation, any merger, reorganization, recapitalization, combination or exchange of shares, or any transaction described in Section 15.1), the Committee may, in its sole discretion, provide (i) that Awards will be settled in cash rather than Stock, (ii) that Awards will become immediately vested and non-forfeitable and exercisable (in whole or in part) and will expire after a designated period of time to the extent not then exercised, (iii) that Awards will be assumed by another party to a transaction or otherwise be equitably converted or substituted in connection with such transaction, (iv) that outstanding Awards may be settled by payment in cash or cash equivalents equal to the excess of the Fair Market Value of the underlying Stock, as of a specified date associated with the transaction, over the exercise or base price of the Award (or the per-shares transaction price), (v) that performance targets and performance periods for Performance Awards will be modified, consistent with Code Section 162(m) where applicable, or (vi) any combination of the foregoing. The Committee's determination need not be uniform and may be different for different Participants whether or not such Participants are similarly situated.

15.3 GENERAL. Any discretionary adjustments made pursuant to this Article 15 shall be subject to the provisions of Section 16.2. To the extent that any adjustments made pursuant to this Article 15 cause Incentive Stock Options to cease to qualify as Incentive Stock Options, such Options shall be deemed to be Nonstatutory Stock Options.

## **ARTICLE 16 AMENDMENT, MODIFICATION AND TERMINATION**

16.1. AMENDMENT, MODIFICATION AND TERMINATION. The Board or the Committee may, at any time and from time to time, amend, modify or terminate the Plan without shareholder approval; provided, however, that if an amendment to the Plan would, in the reasonable opinion of the Board or the Committee, either (i) materially increase the number of Shares available under the Plan, (ii) expand the types of awards under the Plan, (iii) materially expand the class of participants eligible to participate in the Plan, (iv) materially extend the term of the Plan, or (v) otherwise constitute a material change requiring shareholder approval under applicable laws, policies or regulations or the applicable listing or other requirements of an Exchange, then such amendment shall be subject to shareholder approval; and provided, further, that the Board or Committee may condition any other amendment or modification on the approval of shareholders of the Company for any reason, including by reason of such approval being necessary or deemed advisable (i) to comply with the listing or other requirements of an Exchange, or (ii) to satisfy any other tax, securities or other applicable laws, policies or regulations. Except for any mandatory adjustments to the Plan and Awards contemplated by Section 15.1, without the prior approval of the stockholders of the Company, the Plan may not be amended to permit: (i) the exercise price or base price of an Option or SAR to be reduced, directly or indirectly, (ii) an Option or SAR to be cancelled in exchange for cash, other Awards, or Options or SARs with an exercise or base price that is less than the exercise price or base price of the original Option or SAR, or otherwise, or (iii) the Company to repurchase an Option or SAR for value (in cash or otherwise) from a Participant if the current Fair Market Value of the Shares underlying the Option or SAR is lower than the exercise price or base price per share of the Option or SAR.

16.2. AWARDS PREVIOUSLY GRANTED. At any time and from time to time, the Committee may amend, modify or terminate any outstanding Award without approval of the Participant; provided, however:

- (a) Subject to the terms of the applicable Award Certificate, such amendment, modification or termination shall not, without the Participant's consent, reduce or diminish the value of such Award determined as if the Award had been exercised, vested, cashed in or otherwise settled on the date of such amendment or termination (with the per-share value of an Option or SAR for this purpose being calculated as the excess, if any, of the Fair Market Value as of the date of such amendment or termination over the exercise or base price of such Award);
  - (b) The original term of an Option or SAR may not be extended without the prior approval of the shareholders of the Company;
  - (c) Except as otherwise provided in Section 15.1, without the prior approval of the shareholders of the Company, (i) the exercise price of an Option or base price of a SAR may not be reduced, directly or indirectly, (ii) an Option or SAR may not be cancelled in exchange for cash, other Awards, or Options or SARs with an exercise or base price that is less than the exercise price or base price of the original Option or SAR, or otherwise, and (iii) the Company may not repurchase an Option or SAR for value (in cash or otherwise) from
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a Participant if the current Fair Market Value of the Shares underlying the Option or SAR is lower than the exercise price or base price per share of the Option or SAR; and

- (d) No termination, amendment, or modification of the Plan shall adversely affect any Award previously granted under the Plan, without the written consent of the Participant affected thereby. An outstanding Award shall not be deemed to be “adversely affected” by a Plan amendment if such amendment would not reduce or diminish the value of such Award determined as if the Award had been exercised, vested, cashed in or otherwise settled on the date of such amendment (with the per-share value of an Option or SAR for this purpose being calculated as the excess, if any, of the Fair Market Value as of the date of such amendment over the exercise or base price of such Award).

16.3. COMPLIANCE AMENDMENTS. Notwithstanding anything in the Plan or in any Award Certificate to the contrary, the Board may amend the Plan or an Award Certificate, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or Award Certificate to any present or future law relating to plans of this or similar nature (including, but not limited to, Section 409A of the Code), and to the administrative regulations and rulings promulgated thereunder. By accepting an Award under this Plan, a Participant agrees to any amendment made pursuant to this Section 16.3 to any Award granted under the Plan without further consideration or action.

## ARTICLE 17 GENERAL PROVISIONS

### 17.1. RIGHTS OF PARTICIPANTS.

- (a) No Participant or any Eligible Participant shall have any claim to be granted any Award under the Plan. Neither the Company, its Affiliates nor the Committee is obligated to treat Participants or Eligible Participants uniformly, and determinations made under the Plan may be made by the Committee selectively among Eligible Participants who receive, or are eligible to receive, Awards (whether or not such Eligible Participants are similarly situated).
- (b) Nothing in the Plan, any Award Certificate or any other document or statement made with respect to the Plan, shall interfere with or limit in any way the right of the Company or any Affiliate to terminate any Participant’s employment or status as an officer, or any Participant’s service as a director or consultant, at any time, nor confer upon any Participant any right to continue as an employee, officer, director or consultant of the Company or any Affiliate, whether for the duration of a Participant’s Award or otherwise.
- (c) Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company or any Affiliate and, accordingly, subject to Article 16, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company or any of its Affiliates.
- (d) No Award gives a Participant any of the rights of a shareholder of the Company unless and until Shares are in fact issued to such person in connection with such Award.

17.2. WITHHOLDING. The Company or any Affiliate shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company or such Affiliate, an amount sufficient to satisfy federal, state, and local taxes (including the Participant’s FICA obligation) required by law to be withheld with respect to any exercise, lapse of restriction or other taxable event arising as a result of the Plan. The obligations of the Company under the Plan will be conditioned on such payment or arrangements and the Company or such Affiliate will, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant. Unless otherwise determined by the Committee at the time the Award is granted or thereafter, any such withholding requirement may be satisfied, in whole or in part, by withholding from the Award Shares having a Fair Market Value on the date of withholding equal to the minimum amount (and not any greater amount) required to be withheld for tax purposes, all in accordance with such procedures as the Committee establishes. All such elections shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

### 17.3. SPECIAL PROVISIONS RELATED TO SECTION 409A OF THE CODE

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- (a) General. It is intended that the payments and benefits provided under the Plan and any Award shall either be exempt from the application of, or comply with, the requirements of Section 409A of the Code. The Plan and all Award Certificates shall be construed in a manner that effects such intent. Nevertheless, the tax treatment of the benefits provided under the Plan or any Award is not warranted or guaranteed. Neither the Company, its Affiliates nor their respective directors, officers, employees or advisers (other than in his or her capacity as a Participant) shall be held liable for any taxes, interest, penalties or other monetary amounts owed by any Participant or other taxpayer as a result of the Plan or any Award.
- (b) Definitional Restrictions. Notwithstanding anything in the Plan or in any Award Certificate to the contrary, to the extent that any amount or benefit that would constitute non-exempt “deferred compensation” for purposes of Section 409A of the Code (“Non-Exempt Deferred Compensation”) would otherwise be payable or distributable, or a different form of payment (e.g., lump sum or installment) of such Non-Exempt Deferred Compensation would be effected, under the Plan or any Award Certificate by reason of the occurrence of a Change in Control, or the Participant’s Disability or separation from service, such Non-Exempt Deferred Compensation will not be payable or distributable to the Participant, and/or such different form of payment will not be effected, by reason of such circumstance unless the circumstances giving rise to such Change in Control, Disability or separation from service meet any description or definition of “change in control event”, “disability” or “separation from service”, as the case may be, in Section 409A of the Code and applicable regulations (without giving effect to any elective provisions that may be available under such definition). This provision does not prohibit the vesting of any Award upon a Change in Control, Disability or separation from service, however defined. If this provision prevents the payment or distribution of any amount or benefit, or the application of a different form of payment of any amount or benefit, such payment or distribution shall be made at the time and in the form that would have applied absent the Change in Control, Disability or separation from service as applicable.
- (c) Allocation among Possible Exemptions. If any one or more Awards granted under the Plan to a Participant could qualify for any separation pay exemption described in Treas. Reg. Section 1.409A-1(b)(9), but such Awards in the aggregate exceed the dollar limit permitted for the separation pay exemptions, the Company (acting through the Committee or the Head of Human Resources) shall determine which Awards or portions thereof will be subject to such exemptions.
- (d) Six-Month Delay in Certain Circumstances. Notwithstanding anything in the Plan or in any Award Certificate to the contrary, if any amount or benefit that would constitute Non-Exempt Deferred Compensation would otherwise be payable or distributable under this Plan or any Award Certificate by reason of a Participant’s separation from service during a period in which the Participant is a Specified Employee (as defined below), then, subject to any permissible acceleration of payment by the Committee under Treas. Reg. Section 1.409A-3(j)(4)(ii) (domestic relations order), (j)(4)(iii) (conflicts of interest), or (j)(4)(vi) (payment of employment taxes):
- (i) the amount of such Non-Exempt Deferred Compensation that would otherwise be payable during the six-month period immediately following the Participant’s separation from service will be accumulated through and paid or provided on the first day of the seventh month following the Participant’s separation from service (or, if the Participant dies during such period, within 30 days after the Participant’s death) (in either case, the “Required Delay Period”); and
  - (ii) the normal payment or distribution schedule for any remaining payments or distributions will resume at the end of the Required Delay Period.

For purposes of this Plan, the term “Specified Employee” has the meaning given such term in Code Section 409A and the final regulations thereunder; provided, however, that, as permitted in such final regulations, the Company’s Specified Employees and its application of the six-month delay rule of Code Section 409A(a)(2)(B)(i) shall be determined in accordance with rules adopted by the Board or any committee of the Board, which shall be applied consistently with respect to all nonqualified deferred compensation arrangements of the Company, including this Plan.

- (e) Installment Payments. If, pursuant to an Award, a Participant is entitled to a series of installment payments, such Participant’s right to the series of installment payments shall be treated as a right to a series of separate payments and not to a single payment. For purposes of the preceding sentence, the term “series of

installment payments” has the meaning provided in Treas. Reg. Section 1.409A-2(b)(2)(iii) (or any successor thereto).

- (f) Timing of Release of Claims. Whenever an Award conditions a payment or benefit on the Participant’s execution and non-revocation of a release of claims, such release must be executed and all revocation periods shall have expired within 60 days after the date of termination of the Participant’s employment; failing which such payment or benefit shall be forfeited. If such payment or benefit is exempt from Section 409A of the Code, the Company may elect to make or commence payment at any time during such 60-day period. If such payment or benefit constitutes Non-Exempt Deferred Compensation, then, subject to subsection (c) above, (i) if such 60-day period begins and ends in a single calendar year, the Company may make or commence payment at any time during such period at its discretion, and (ii) if such 60-day period begins in one calendar year and ends in the next calendar year, the payment shall be made or commence during the second such calendar year (or any later date specified for such payment under the applicable Award), even if such signing and non-revocation of the release occur during the first such calendar year included within such 60-day period. In other words, a Participant is not permitted to influence the calendar year of payment based on the timing of signing the release.
- (g) Permitted Acceleration. The Company shall have the sole authority to make any accelerated distribution permissible under Treas. Reg. section 1.409A-3(j)(4) to Participants of deferred amounts, provided that such distribution(s) meets the requirements of Treas. Reg. section 1.409A-3(j)(4).

17.4. UNFUNDED STATUS OF AWARDS. The Plan is intended to be an “unfunded” plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Certificate shall give the Participant any rights that are greater than those of a general creditor of the Company or any Affiliate. In its sole discretion, the Committee may authorize the creation of grantor trusts or other arrangements to meet the obligations created under the Plan to deliver Shares or payments in lieu of Shares or with respect to Awards. This Plan is not intended to be subject to ERISA.

17.5. RELATIONSHIP TO OTHER BENEFITS. No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or benefit plan of the Company or any Affiliate unless provided otherwise in such other plan. Nothing contained in the Plan will prevent the Company from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

17.6. EXPENSES. The expenses of administering the Plan shall be borne by the Company and its Affiliates.

17.7. TITLES AND HEADINGS. The titles and headings of the Sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

17.8. GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

17.9. FRACTIONAL SHARES. No fractional Shares shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional Shares or whether such fractional Shares shall be eliminated by rounding up or down.

17.10. GOVERNMENT AND OTHER REGULATIONS.

- (a) Notwithstanding any other provision of the Plan, no Participant who acquires Shares pursuant to the Plan may, during any period of time that such Participant is an affiliate of the Company (within the meaning of the rules and regulations of the Securities and Exchange Commission under the 1933 Act), sell such Shares, unless such offer and sale is made (i) pursuant to an effective registration statement under the 1933 Act, which is current and includes the Shares to be sold, or (ii) pursuant to an appropriate exemption from the registration requirement of the 1933 Act, such as that set forth in Rule 144 promulgated under the 1933 Act.
- (b) Notwithstanding any other provision of the Plan, if at any time the Committee shall determine that the registration, listing or qualification of the Shares covered by an Award upon any Exchange or under any

foreign, federal, state or local law or practice, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Award or the purchase or receipt of Shares thereunder, no Shares may be purchased, delivered or received pursuant to such Award unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Committee. Any Participant receiving or purchasing Shares pursuant to an Award shall make such representations and agreements and furnish such information as the Committee may request to assure compliance with the foregoing or any other applicable legal requirements. The Company shall not be required to issue or deliver any certificate or certificates for Shares under the Plan prior to the Committee's determination that all related requirements have been fulfilled. The Company shall in no event be obligated to register any securities pursuant to the 1933 Act or applicable state or foreign law or to take any other action in order to cause the issuance and delivery of such certificates to comply with any such law, regulation or requirement.

17.11. GOVERNING LAW. To the extent not governed by federal law, the Plan and all Award Certificates shall be construed in accordance with and governed by the laws of the State of Georgia.

17.12. SEVERABILITY. In the event that any provision of this Plan is found to be invalid or otherwise unenforceable under any applicable law, such invalidity or unenforceability will not be construed as rendering any other provisions contained herein as invalid or unenforceable, and all such other provisions will be given full force and effect to the same extent as though the invalid or unenforceable provision was not contained herein.

17.13. NO LIMITATIONS ON RIGHTS OF COMPANY. The grant of any Award shall not in any way affect the right or power of the Company to make adjustments, reclassification or changes in its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets. The Plan shall not restrict the authority of the Company, for proper corporate purposes, to draft or assume awards, other than under the Plan, to or with respect to any person. If the Committee so directs, the Company may issue or transfer Shares to an Affiliate, for such lawful consideration as the Committee may specify, upon the condition or understanding that the Affiliate will transfer such Shares to a Participant in accordance with the terms of an Award granted to such Participant and specified by the Committee pursuant to the provisions of the Plan.

The foregoing is hereby acknowledged as being the Global Payments Inc. Amended and Restated 2011 Incentive Plan as adopted by the Board on July 27, 2016 and by the shareholders on September 28, 2016.

Global Payments Inc.

By: /s/ David L. Green  
David L. Green  
Executive Vice President, General Counsel and Corporate Secretary

**LIST OF SUBSIDIARIES**

Global Payments Inc. has the following subsidiaries and ownership interests.

<b>NAME</b>	<b>JURISDICTION OF ORGANIZATION</b>
Comercia Global Payments Entidad de Pago, S.L.	Spain (1)
Debittek, Inc.	Delaware
Digital Dining, LLC	Delaware
Dinerware, LLC	Delaware
DolEx Europe, S.L.	Spain
Educational Computer Systems, Inc.	Pennsylvania
Ematters Australia Pty Ltd.	Australia
Equifax Credit Services, LLC	Russian Federation
eWay Europe Limited	United Kingdom
eWay New Zealand Limited	New Zealand
eWay Payments Asia Pte, Ltd.	Singapore
eWay Payments Inc.	Delaware
eWay Payments North America Inc.	Canada
eWay Payments Pty Ltd.	Australia
Ezi Holdings, Pty. Ltd.	Australia
Ezi Management Pty Ltd.	Australia
Ezi Properties Pty Ltd.	Australia
Ezidebit (NZ) Limited	New Zealand
Ezidebit HK, Ltd.	Hong Kong
Ezidebit Pty Ltd.	Australia
Global Payment Holding Company	Delaware
Global Payment Systems Asia-Pacific (Malaysia) Sdn. Bhd.	Malaysia
Global Payment Systems LLC	Georgia
Global Payment Systems of Canada, Ltd.	Canada
Global Payments - Caixa Acquisition Corporation S.a.r.l.	Luxembourg (2)
Global Payments - Realex Holding Limited	Ireland
Global Payments - Servicos de Pagamentos S.A.	Brazil (3)
Global Payments Acquisition Corp. 1 B.V.	Netherlands
Global Payments Acquisition Corp. 2 B.V.	Netherlands
Global Payments Acquisition Corp. 3 B.V.	Netherlands
Global Payments Acquisition Corporation 2 S.á.r.l.	Luxembourg
Global Payments Acquisition Corporation 2, LLC	Delaware
Global Payments Acquisition Corporation 3 S.á.r.l.	Luxembourg
Global Payments Acquisition Corporation 3, LLC	Delaware
Global Payments Acquisition Corporation 4 S.á.r.l.	Luxembourg
Global Payments Acquisition Corporation 6 S.á.r.l.	Luxembourg
Global Payments Acquisition Corporation 7 S.á.r.l.	Luxembourg
Global Payments Acquisition Corporation 7, LLC	Delaware
Global Payments Acquisition Corporation HK Holding Limited	Hong Kong
Global Payments Acquisition PS 1 C.V.	Netherlands
Global Payments Acquisition PS 2 C.V.	Netherlands
Global Payments Acquisition PS1-Global Payments Direct S.e.n.c.	Luxembourg
Global Payments Asia Pacific (Singapore) Private Limited	Singapore
Global Payments Asia-Pacific (Hong Kong Holding) Limited	Hong Kong
Global Payments Asia-Pacific (Hong Kong) Limited	Hong Kong
Global Payments Asia-Pacific (Shanghai) Limited	People's Republic of China

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<b>NAME</b>	<b>JURISDICTION OF ORGANIZATION</b>
Global Payments Asia-Pacific (Singapore Holding) Private Limited	Singapore
Global Payments Asia-Pacific India Private Limited	India
Global Payments Asia-Pacific Lanka (Private) Limited	Sri Lanka
Global Payments Asia-Pacific Limited	Hong Kong
Global Payments Asia-Pacific Philippines Incorporated	Philippines (4)
Global Payments Asia-Pacific Processing Company Limited	Hong Kong
Global Payments Australia Pty 1 Ltd.	Australia
Global Payments Australia Pty 2 Ltd.	Australia
Global Payments Canada GP	Canada
Global Payments Canada Inc.	Canada
Global Payments Card Processing Malaysia Sdn. Bhd	Malaysia
Global Payments Check Recovery Services, Inc.	Georgia
Global Payments Check Services, Inc.	Illinois
Global Payments Direct, Inc.	New York
Global Payments Europe, s.r.o.	Czech Republic
Global Payments Gaming Canada, Inc.	Canada
Global Payments Gaming International, Inc.	Georgia
Global Payments Gaming Services, Inc.	Illinois
Global Payments Limited	Malta
Global Payments Process Centre Inc.	Philippines
Global Payments s.r.o.	Czech Republic (5)
Global Payments Singapore Private Limited	Singapore
Global Payments South America, Brasil-Servicos de Pagamentos S.A.	Brazil (6)
Global Payments UK 2 Ltd.	United Kingdom
Global Payments UK Ltd.	United Kingdom
GP Finance, Inc.	Delaware
GPA PS 3 C.V.	Netherlands
GPAP Macau Limited	Macau
GPC Financial Corporation	Canada
GPS Holding Limited Partnership	Georgia
GPUK LLP	United Kingdom
Greater Giving, Inc.	Delaware
Heartland Acquisition, LLC	Delaware
Heartland Commerce, Inc.	Delaware
Heartland Payment Solutions, Inc.	Delaware
Heartland Payment Systems, LLC	Delaware
Heartland Payroll Solutions, Inc.	Delaware
Merchant Services U.S.A., Inc.	North Carolina
Modular Data, Inc.	Delaware
NDC Holdings (UK) Ltd.	Georgia
NDPS Holdings, Inc.	Delaware
OpenEdge Payments LLC	Delaware
Pay and Shop Limited	Ireland
PayPros LLC	Delaware
Payroll 1, Inc.	Michigan
PCAmerica, LLC	Delaware
Peoplehub Pty Ltd.	Australia
Regalcroft Pty Ltd.	Australia

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<b>NAME</b>	<b>JURISDICTION OF ORGANIZATION</b>
Sabrir Invest, S.L.U.	Spain
Secure Payment Solutions Pty Ltd.	Australia
Simple Business Technologies Pty Ltd.	Australia
Storman Holdings Pty Ltd.	Australia
Storman Software Limited	New Zealand
Storman Software Ltd.	United Kingdom
Storman Software Pty Ltd.	Australia
Storman Software, Inc.	California
TouchNet Information Systems, Inc.	Kansas
UCS Terminal Joint Stock Company	Russian Federation
United Card Service Joint-Stock Company	Russian Federation
Web Active Corporation Pty Ltd.	Australia
Xpient, LLC	Delaware

*(1) Comercia Global Payments Entidad de Pago, S.L. has a shareholder unrelated to Global Payments Inc. which owns a 49% noncontrolling interest.*

*(2) Global Payments - Caixa Acquisition Corporation S.a.r.l. has a shareholder unrelated to Global Payments Inc. which owns a 49% noncontrolling interest.*

*(3) Global Payments - Servicios de Pagamentos S.A. has a shareholder unrelated to Global Payments Inc. which owns a 10% noncontrolling interest.*

*(4) Global Payments Asia-Pacific Philippines Incorporated has a shareholder unrelated to Global Payments Inc. which owns a 49% noncontrolling interest.*

*(5) Global Payments s.r.o. has a shareholder unrelated to Global Payments Inc. which owns a 49% noncontrolling interest.*

*(6) Global Payments South America, Brasil-Servicos de Pagamentos S.A. has a shareholder unrelated to Global Payments Inc. which owns a 50% interest.*

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-169436 and 333-177026 on Form S-8 of our reports dated February 28, 2017, relating to the financial statements and financial statement schedule of Global Payments Inc. and subsidiaries (the "Company") (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company changing its fiscal year end from May 31 to December 31), and the effectiveness of the Company's internal control over financial reporting, appearing in this Transition Report on Form 10-K of the Company for the seven months ended December 31, 2016.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia  
February 28, 2017



## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below hereby constitutes and appoints Jeffrey S. Sloan his or her attorney-in-fact and agent, with full power of substitution and resubstitution in any and all capacities, to sign the Transition Report on Form 10-K of Global Payments Inc. for the period from June 1, 2016 to December 31, 2016, and any amendment thereto, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters and hereby ratifying and confirming all that such attorney-in-fact and agent or his substitute or substitutes may do or cause to be done by virtue hereof.

/s/ William I Jacobs Chairman of the Board  
William I Jacobs

/s/ Robert H.B. Baldwin, Jr. Director  
Robert H.B. Baldwin, Jr.

/s/ John G. Bruno Director  
John G. Bruno

/s/ Mitchell L. Hollin Director  
Mitchell L. Hollin

/s/ Ruth Ann Marshall Director  
Ruth Ann Marshall

/s/ John M. Partridge Director  
John M. Partridge

/s/ Alan M. Silberstein Director  
Alan M. Silberstein

/s/ Michael W. Trapp Director  
Michael W. Trapp

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey S. Sloan, certify that:

1. I have reviewed this Transition Report on Form 10-K of Global Payments Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

By: /s/ Jeffrey S. Sloan

Jeffrey S. Sloan  
Principal Executive Officer

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cameron M. Bready, certify that:

1. I have reviewed this Transition Report on Form 10-K of Global Payments Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

By: /s/ Cameron M. Bready

Cameron M. Bready  
Principal Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
§ 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Transition Report of Global Payments Inc. on Form 10-K for the seven months ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jeffrey S. Sloan and Cameron M. Bready certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Global Payments Inc.

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*/s/ Jeffrey S. Sloan*  
**Jeffrey S. Sloan**  
**Principal Executive Officer**  
**Global Payments Inc.**  
**February 28, 2017**

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*/s/ Cameron M. Bready*  
**Cameron M. Bready**  
**Principal Financial Officer**  
**Global Payments Inc.**  
**February 28, 2017**

A signed original of this written statement required by Section 906 has been provided to Global Payments Inc. and will be retained by Global Payments Inc. and furnished to the Securities and Exchange Commission upon request.