
**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**
For the fiscal year ended May 31, 2003
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No. 001-16111



GLOBAL PAYMENTS INC.

(Exact name of registrant as specified in charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

Four Corporate Square, Atlanta, Georgia
(Address of principal executive offices)

58-2567903
(I.R.S. Employer
Identification No.)

30329-2009
(Zip Code)

Registrant's telephone number, including area code: 404-728-2719

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

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

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

NONE
(Title of Class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 18, 2003, the aggregate market value of the voting stock held by non-affiliates (assuming for these purposes, but not conceding, that all named executive officers, directors, and shareholders owning 25% or more of the outstanding shares of common stock are "affiliates" of the Registrant) was \$979,133,134 based upon the last reported sale price on The New York Stock Exchange on August 18, 2003.

The number of shares of the registrant's common stock outstanding at August 18, 2003 was 37,174,023 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Specifically identified portions of the registrant's proxy statement for the 2003 annual meeting of shareholders are incorporated by reference in Part III.

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**SPECIAL CAUTIONARY NOTICE REGARDING
FORWARD-LOOKING STATEMENTS**

We believe that it is important to communicate our plans and expectations about the future to our shareholders and to the public. Some of the statements we use in this report, and in some of the documents we incorporate by reference in this report contain forward-looking statements concerning our business operations, economic performance and financial condition, including in particular, our business strategy and means to implement the strategy, the amount of future capital expenditures, our success in developing and introducing new products and expanding our business, the successful integration of future acquisitions, and the timing of the introduction of new and modified products or services. You can sometimes identify forward looking-statements by our use of the words “believes,” “anticipates,” “expects,” “intends” 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 and estimates that are inherently subject to significant risks and uncertainties, many of which are beyond our control, cannot be foreseen, and reflect future business decisions that are subject to change. Accordingly, we cannot guarantee you that our plans and expectations will be achieved. Our actual revenues, revenue growth rates and margins, other results of operation and shareholder values could differ materially from those anticipated in our forward-looking statements as a result of many known and unknown factors, many of which are beyond our ability to predict or control. These factors include, but are not limited to, those set forth in Exhibit 99.1 to this report, those set forth elsewhere in this report and those set forth in our press releases, reports and other filings made with the Securities and Exchange Commission. 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.

Where to Find More Information

We file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission or SEC. You may read and print materials that we have filed with the SEC from their website at www.sec.gov. In addition, certain of our SEC filings, including our annual report on Form 10-K, our quarterly reports on Form 10-Q and current reports on Form 8-K can be viewed and printed from the investor information section of our website at www.globalpaymentsinc.com free of charge. Copies of our filings and specified exhibits are also available, free of charge, by writing or calling us using the address or phone number on the cover of this 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, where our common stock is quoted under the symbol “GPN.”

SEC Public Reference Room
450 Fifth Street, N.W., Room 1200
Washington, DC 20549
(You may call the SEC at 1-800-SEC-0330 for further information on the public reference room.)

New York Stock Exchange Offices
20 Broad Street
New York, NY 10005

PART I

ITEM 1—BUSINESS

General Developments

Financial Highlights

In fiscal 2003, revenue increased \$53.3 million or 12% to \$516.1 million from \$462.8 million in fiscal 2002. Revenue growth is primarily driven by the growth in our direct merchant service offering in the United States and Canadian portfolios. Operating income is \$93.3 million for fiscal 2003, compared to \$71.4 million in the prior year's comparable period. This resulted in an increase in operating margin from 15.4% for fiscal 2002 to 18.1% for fiscal 2003. Operating income excluding the effect of the restructuring and other charges from fiscal 2003 and 2002, increased \$12.1 million or 15% to \$94.5 million in fiscal 2003 from \$82.4 million in fiscal 2002. Net income increased \$29.5 million or 124% to \$53.3 million in fiscal 2003 from \$23.8 million in the prior year's comparable period, resulting in a \$0.78 increase in diluted earnings per share to \$1.41 from \$0.63. Net income, excluding the impact of the restructuring and other charges from fiscal 2003 and 2002 and excluding the cumulative effect of the change in accounting principle from fiscal 2002, increased by \$7.5 million or 16% to \$54.1 million in fiscal 2003 from \$46.6 million in fiscal 2002 and diluted earnings per share on the same basis increased \$0.20 or 17% to \$1.43 in fiscal 2003 from \$1.23 in fiscal 2002. Refer to Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations.

Pending Acquisition

On August 11, 2003, we entered into a definitive agreement to acquire Latin America Money Services, LLC, or LAMS, a holding company which directly owns a majority of the outstanding equity interest in DolEx Dollar Express, Inc., or DolEx, and indirectly owns a majority of the outstanding equity interest in DolEx Envios S.A. de C.V., a Mexican subsidiary of DolEx. The transaction, which is structured as a merger between a newly created subsidiary of Global Payments and LAMS, is subject to regulatory approvals; however it is expected to close before the end of calendar year 2003. We are also acquiring the remaining minority interest in DolEx, so that following the transaction, DolEx will be a wholly-owned, indirect subsidiary of Global Payments Inc. The purchase price is \$190 million, plus a contingent payment of up to \$10 million based on the calendar year 2003 financial results of DolEx. We expect the purchase price to be financed under our existing line of credit, cash on hand, and notes payable. We intend to operate the business in a manner consistent with DolEx's historical operations. We plan to include this business in our funds transfer offering, with a consumer-to-consumer focus. Once the transaction closes, we will re-name the funds transfer offering to money transfer.

Founded in 1996, DolEx is a leading provider of consumer-to-consumer electronic money transfer services to the Latino community living in the U.S. and their Latin American families abroad. DolEx provides services that allow customers to send money from its network of retail branches in the U.S. to beneficiaries in Latin America. The company has its headquarters in Arlington, Texas, operates hundreds of branches across the U.S. in areas with large Latino populations, and has settlement arrangements with thousands of bank, exchange house, and retail locations in Latin America. For the year ended December 31, 2002, DolEx and DolEx Envios reported total revenues of \$69.9 million.

Acquisition Integration

As part of our ongoing strategy to integrate our acquisitions into our existing systems, we completed the conversion of National Bank of Canada's, or National Bank, merchant accounts onto our back-end operating platform during October 2002. We also completed the front-end conversion of the merchant accounts acquired from National Bank to a Canadian-based third party processor during February 2003.

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Acquisition Strategy

We continue to pursue our acquisition strategy, which includes entering new markets and expanding existing markets. Our focus will be on international processing and payment-related businesses that will allow us to leverage our back-end platform, risk, and chargebacks infrastructure and gain greater economies of scale. We believe that the experience we have gained from past acquisitions has made us proficient on systems conversions.

Merchant Processing Industry Matters

On June 5, 2003, MasterCard and VISA announced that they have settled the class-action antitrust lawsuit which was filed by Wal-Mart Stores, Inc. Sears, Roebuck and Co. and other merchants against MasterCard and VISA. This lawsuit began in 1996 when a group of merchants sued MasterCard and VISA over their signature debit interchange rates and policies on merchant card acceptance, which is commonly known in the industry as the “honor all cards” rule. The settlement included damages to be paid to certain merchants, lower signature debit interchange rates and modification of card acceptance policies, so that merchants are no longer required to accept VISA and MasterCard signature based, offline debit cards as a condition for accepting VISA and MasterCard credit cards. Due to the policy changes on cards merchants can choose to accept and consumers’ preference for higher security, we believe that this settlement may result in an increase in Personal Identification Number, or PIN-based debit usage. Although it is difficult to determine the impact of this settlement on Global Payments, we do not expect this to have a significant negative impact on our future growth.

Business Description

Global Payments Inc., or Global Payments, is a high volume processor of electronic transactions and related money transfers that principally enables consumers, corporations, government agencies and other profit and non-profit business enterprises to purchase goods and services or further other economic goals. Our role is to serve as an intermediary in the exchange of information and funds that must occur between the necessary parties such that a transaction can be completed. Including our time as part of National Data Corporation, now known as NDCHealth, or NDC, we have provided transaction processing services since 1968. During that period, we have expanded our business to include debit card, business-to-business purchasing card, check guarantee, check verification and recovery, and terminal management services, which we collectively include as a component of our merchant service offerings. In addition, we provide funds transfer services to domestic and international financial institutions, corporations, and government agencies in the United States, Canada, and Europe. We were incorporated in Georgia as Global Payments Inc. in September 2000.

We operate in one business segment, electronic transaction processing, and provide products and services through our merchant services and funds transfer offerings. We provide our products and services to merchant customers in many vertical industries including government, professional services, restaurant, universities, utilities, gaming, retail and health care.

Total revenues from our merchant service and funds transfer customers are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
		(in thousands)	
Merchant services	\$ 503,827	\$ 449,144	\$ 334,979
Funds transfer	12,257	13,682	18,216
	<u>\$ 516,084</u>	<u>\$ 462,826</u>	<u>\$ 353,195</u>

Merchant Services

Our merchant services offerings provides merchants and financial institutions with credit and debit card transaction processing, check guarantee, check verification and recovery services. We are primarily the intermediary between the merchant and the card associations and debit networks or individual financial institutions. Our value added services allow us to leverage our scale to concentrate high volume transactions for

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many merchant customers to access the card associations and debit networks at a significantly lower cost. Our check products offer merchant customers risk management, in the case of verification and recovery, or risk elimination, in the case of guarantee, by leveraging our vast database of checkwriters to help decide whether the merchant should accept a check as the form of payment from a particular checkwriter.

Credit and Debit Card Transaction Processing

Credit and debit card transaction processing includes business-to-business purchasing card, private label, gift and loyalty card and electronic benefits transfer program processing. Credit and debit card processing describes a consumer acquiring goods or services from a retail location, whereas business-to-business card processing refers to a corporate purchasing department acquiring goods, such as office supplies or raw materials, from a corporate vendor.

Although card transactions may appear simplistic, a transaction requires a complex process involving various participants in a series of electronic connections. Aside from electronic transaction processors, also known as merchant acquirers, such as Global Payments, participants in this process include card issuers, merchants, cardholders, and card associations. Card issuers are financial institutions that issue credit cards to approved applicants and are identifiable by their trade name typically imprinted on the issued cards. The term merchant generally refers to any organization that accepts credit or debit cards for the payment of goods and services, such as retail stores, restaurants, corporate purchasing departments, universities, and government agencies.

An approved applicant for a credit card from a card issuer is referred to as a cardholder, and may be any entity for which an issuer wishes to extend a line of credit, such as a consumer, corporation, or government agency. The cardholder may use the card at any merchant location that meets the qualification standards of the card associations, known as MasterCard and VISA, or other card issuers such as American Express, Discover, Diners Club and debit networks such as STAR, NYCE, and PULSE in the United States and Interac in Canada. Debit cards payments differ slightly from traditional credit card transactions in that the cardholder is required to have sufficient funds available in a deposit account at the time of the transaction, or the debit card transaction will not be authorized. PIN-based or online debit transactions are sent through a debit network, while signature-based, offline debit, or check card transactions are sent through card associations and require a signature at the time of purchase. Also, PIN-based or online debit transactions deduct the purchase amount from the cardholder's deposit account within a day of the purchase, depending on the time of the purchase. Signature-based, offline debit, or check card transactions typically debit the cardholder's deposit account two to three days after the purchase, although the funds are "held" with a memo posted to the cardholder's bank account. A credit card posts to a cardholders account, reducing the available credit limit in a similar manner.

The card associations and debit networks consist of members, generally financial institutions, who establish uniform regulations that govern much of the industry. During a typical card transaction, the merchant and the card issuer do not interface directly with each other, but instead rely on electronic transaction processor intermediaries, such as Global Payments, and card associations to exchange the required information and funds. Credit card and debit card transactions account for approximately 81% and 19%, respectively, in the United States, and 34% and 66%, respectively, in Canada, of our total transactions processed. We perform a series of services including authorization, electronic draft capture, funds settlement and certain exception-based, back office support services such as chargeback and retrieval resolution. The following is a more detailed description of credit and debit card transactions:

A card transaction begins when a cardholder presents a card for payment at a merchant location and the merchant swipes the card's magnetic strip through a point of sale, or POS, terminal card reader, which may be provided by Global Payments through our terminal management offering. For a credit card transaction, authorization services generally refer to the process whereby the card issuer indicates whether a particular credit card is authentic and whether the impending transaction value will cause the cardholder to exceed a defined limit. The terminal electronically records sales draft information, such as the credit card identification number, transaction date, and dollar value of the goods or services purchased. In a PIN-based debit transaction, the terminal records the card number, PIN and dollar value of the purchase.

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After a card is swiped, the terminal automatically dials a pre-programmed phone number connected to our network in order to receive authorization of the transaction. We route the request to the applicable card association or debit network. The card association or debit network forwards the authorization request to the card issuer, who determines a response based on the status of the cardholder's account. The response is returned to the merchant's terminal via the same communication network. This entire authorization and response process occurs within seconds from the time the merchant swipes the cardholder's card through the point of sale terminal card reader.

Electronic draft capture is the process of transferring sales draft data into electronic format so that it may be sent through networks for clearing and settlement. The card associations use either a system known as interchange, in the case of credit cards, or the debit networks in the case of debit cards, to transfer the information and funds between the card issuers and us to complete the link between merchants and card issuers.

Funds settlement refers to the process of transferring funds for sales and credits between cardholders and card issuers, including the final debiting of a cardholder's account and crediting of a merchant's account for a sales transaction. Depending on the type of transaction, either the interchange system or the debit networks are used to transfer the information and funds between electronic transaction processors and card issuers, and complete the link between merchants and card issuers. We use our network telecommunication infrastructure and the Federal Reserve's Automated Clearing House system, or ACH in the United States and the Automated Clearing Settlement System, and the Large Value Transfer System, both in Canada, to ensure that our merchants receive the proper funds due to them for the value of the goods or services that the cardholder purchased. In the United States, merchant funding primarily occurs after we receive the funds from the card issuer. This business model differs from the business model followed in Canada, where we advance payment to merchants for credit and debit card transactions before receiving the interchange or debit transaction reimbursement from the card issuers. Each participant in the transaction process receives compensation for their services. As an illustration, on a \$100.00 credit card or offline debit transaction, the card issuer may fund us \$98.50 retaining approximately \$1.50 referred to as an interchange fee. We would, in turn, pay the merchant \$100.00 and pay assessment fees to the card association of approximately \$0.10. After the end of the month, we would bill the merchant a percentage of the transaction, or discount, to cover the full amount of the interchange fee, assessment fee and our net revenue from the transaction. If our net revenue from the merchant in the above example was 40 basis points, we would bill the merchant \$2.00 at the end of the month for the transaction, reimburse ourselves for approximately \$1.60 in interchange and assessment fees and retain \$0.40 as our net revenue for the transaction. For a PIN-based debit card transaction, a rate per transaction is charged which includes our fee and debit network fees. The card issuer seeks reimbursement of \$100.00 from the cardholder in the form of a monthly credit card bill or charging the cardholders bank account in the case of a debit card transaction.

In addition to the card processing services described above, we also process retrieval requests on behalf of merchants for issuing banks and portfolios and provide chargeback resolution services, both of which relate to cardholders disputing an amount that has been charged to their credit card. We review the dispute and handle the related exchange of information and funds between the merchant and the card issuer if a charge is to be reversed.

Our merchant accounting services provide information primarily for our financial institution customers to monitor portfolio performance, control expenses, disseminate information, and track profitability through the production and distribution of detailed statements summarizing electronic transaction processing activity. Our risk management services allow financial institutions and independent sales organizations, or ISOs, to monitor credit risk, thereby enhancing the profitability of their merchant portfolios. Our risk management services include credit underwriting, credit scoring, fraud control, account processing, and collections. We also provide our customers with various support services, such as working with merchants to set-up their credit card programs or resolving issues relating to their terminal card readers.

Check Guarantee Services

Check guarantee services include comprehensive check verification and guarantee services designed for a merchant's specific needs and risk adversity. Since this service offering guarantees payment of all checks that are

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electronically verified (primarily using point-of-sale check readers) through our extensive database, merchants may safely expand their revenue base by applying less stringent requirements when accepting checks from consumers. If a verified check is dishonored, our check guarantee service generally provides the merchant with reimbursement of the check's face value, and then pursues collection of the check through our internal collection services. To protect against this risk, we use verification databases that contain information on historical delinquent check writing activity and up-to-date consumer bank account status. We derive revenue for these services primarily by charging the merchant a percentage of the face value of each guaranteed check.

In the specialized vertical market of gaming, our VIP Preferred proprietary software provides the gaming industry with the tools necessary to establish revolving check cashing limits for the casinos' customers. Because VIP Preferred cardholders have fast access to cash with high limits, gaming establishments can increase money to their floor and eliminate associated risk because transactions are 100 percent guaranteed. We also offer an electronic check option, VIP Preferred e-Check, which eliminates the need for paper checks as part of the VIP Preferred suite of products.

Check Verification and Recovery Services

Check verification and recovery services are similar to those provided in the check guarantee service, except that this service does not guarantee payment of the verified checks. This service provides a low-cost, loss-reduction solution for merchants wishing to quickly measure a customer's check worthiness at the point of sale, while not having to incur the additional expense of check guarantee services. We derive revenue for these services primarily from the service fees collected from delinquent check writers, fees charged to merchants based on a transaction rate per verified check, and fees charged to merchants for specialized services, such as electronic re-deposits of dishonored checks.

Our terminal management offering provides a variety of products and services relating to electronic transaction processing equipment, such as terminal programming and deployment, set-up and telephone training, maintenance and equipment replacement, warehousing and inventory control, customer service and technical support, customized reporting, and conversions. We provide these services directly to our own portfolio of merchants to support our credit and debit card transaction processing, check guarantee and check verification and recovery services, as well as, indirectly to merchants on behalf of our financial institution and independent sales organization customers. We derive revenue from equipment sales and rentals, programming and deployment fees, and repairs and maintenance services.

Funds Transfer

Our electronic funds transfer product and service offerings include a wide variety of services such as financial electronic data interchange, or EDI, account balance reporting, management information and deposit reporting. These products and services provide financial, management and operational data to financial institutions, corporations and government agencies worldwide and allow these organizations to exchange the information with financial institutions and other service providers. We also provide EDI tax filing and Internet tax payment services that allow financial institutions and government agencies to offer corporate taxpayers a secure and convenient method of paying taxes electronically. Tax payment security is handled through both SSL encryption/decryption and multi-level password access and operates through a web site that serves as the portal for securely receiving tax information and delivering the transaction for payment.

Sales and Marketing

We offer end-to-end services, which means that we believe we have the ability to fulfill all of our customers' needs with respect to merchant services and funds transfer offerings. We market our services through a variety of sales channels that includes a large, dedicated sales force, independent sales organizations, independent sales representatives, an internal telesales group, trade associations, alliance and agent bank relationships, and financial institutions.

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In addition to receiving referrals from approximately 1,800 bank branch locations in Canada, we have affiliations with more than 200 organizations, including financial institutions and trade associations, and approximately 300 Certified Application Providers, or CAPs, in the United States that provide sales leads. Additionally, we market directly to customers through print advertising and direct mail efforts. We also participate in major industry tradeshow and publicity events and actively employ various public relations campaigns. We pursue this strategy in an attempt to utilize the lowest delivery cost system available to successfully acquire target customers.

We market our products and services throughout the United States, Canada and Europe. For a discussion of revenues in the United States, Canada and Europe for the fiscal years ended May 31, 2003, 2002 and 2001, see Note 1 in the Notes to Consolidated Financial Statements.

We have two basic business models we use to market our products and services. In one model, which we refer to as "direct" merchant services, we have a salaried and commissioned sales force and ISOs which sell our end-to-end services directly to merchants. In the other model, which we refer to as "indirect" merchant services, we provide unbundled products and services primarily to financial institutions that in turn resell our products and their services to their merchants.

For the fiscal year ended May 31, 2003, approximately 83% of our revenue arose from direct merchant services and 15% arose from indirect merchant services, while the remaining 2% arose from our funds transfer service offering. Direct revenue is generated on services primarily priced as a percentage of transaction value, whereas indirect and funds transfer revenue is generated on merchants charged a specified amount per transaction. We also charge for other processing fees, unrelated to the number of transactions or the transaction value.

Employees

As of June 30, 2003, we and our subsidiaries had approximately 1,700 employees. Many of our employees are highly skilled in technical areas specific to electronic transaction processing, and we believe that our current and future operations depend substantially on retaining these employees.

Competition

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

Based on industry publications such *The Nilson Report*, dated March 2003, we are a leading, mid-market merchant acquirer in the United States. According to that report, one of our competitors, First Data Corporation and its affiliates, is the largest electronic transaction processor in the United States. In April 2003, First Data Corporation announced a definitive agreement to merge with Concord EFS, Inc. The merger is currently under review by antitrust authorities and if approved, the combined companies, excluding VISA and MasterCard, would result in the largest market share of electronic transaction processing and network ownership in the United States. Although the consummation of this merger would increase the size of the largest competitor in the

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merchant processing industry, this merger may present us and other merchant processors with additional opportunities. This merger should not directly impact us as we focus on the mid-market merchant segment in the United States and we do not own a debit network, whereas these competitors focus on larger market merchants and own debit networks.

Our primary competitor in Canada is Moneris Solutions, which we believe has a slightly larger share of the Canadian electronic transaction market than we do. Moneris Solutions is a joint investment of the Royal Bank of Canada and the Bank of Montreal. However, we believe that we are the largest, publicly traded independent processor in Canada.

The most significant competitive factors related to our product and services include customer service, quality, value-added features, functionality, price, reliability, the breadth and effectiveness of our distribution channel, and the manner in which we deliver our services. While we service all industry segments, we specialize in the mid-market segment in the United States and the large market segment in Canada. We define mid-market as a merchant with an average of \$250 thousand to \$300 thousand in annual VISA and/or MasterCard volume. These competitive factors will continue to change as new distribution channels and alternative payment solutions are developed by our competitors and us.

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

Industry Overview and Target Markets

We believe that significant opportunities exist for continued growth in the application of transaction processing services to the electronic commerce market. Although a large percentage of retail transactions still utilize cash, merchants encourage electronically authorized and settled transactions using credit and debit cards as a more efficient means of transacting business with their customers.

The rapid growth of retail credit card transactions, as well as the increased utilization of debit cards, directly correlates with the historic growth of our business. In the United States, total consumer spending is expected to continue to increase, together with an increase in the percentage of consumers using forms of payment other than cash and checks (i.e., credit and debit cards and other electronic means). Based on *The Nilson Report* dated April 2003, we believe that more than \$2.1 trillion of annual consumer spending is charged using VISA and MasterCard. In Canada, we expect to benefit from similar consumer spending trends. Based on *The Nilson Report* dated July 2003, we also believe that over \$157 billion (U.S.) of annual Canadian consumer spending uses VISA, MasterCard or debit as the form of payment.

Payment processing service providers, such as Global Payments, provide high volume electronic transaction processing and support services directly to banking institutions and to new entrants into the business. The shift in the industry from traditional financial institution providers to independent providers is due in large part to more efficient distribution channels, as well as increased technological capabilities required for the rapid and efficient creation, processing, handling, storage, and retrieval of information. These capabilities have become increasingly complex, requiring significant capital commitments to develop, maintain, and update the systems necessary to provide these advanced services at a competitive price.

As a result of the continued growth in our industry, several large merchant processors, including us, have expanded operations through the creation of alliances or joint ventures with banks and have acquired new merchant portfolios from banks that previously serviced these merchant accounts.

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We believe that the proliferation of “loyalty” or co-branded cards that provide consumers with added benefits for card use should contribute to increased use of credit and debit cards in the future. Additionally, as merchants and consumers continue to use electronic commerce as a means to purchase goods and services, both the consumer-to-business and business-to-business aspects of electronic commerce will demand a growing array of transaction processing and support services. We currently provide complete processing capabilities for major credit cards, co-branded credit cards, debit cards and purchasing cards and are continuing to research services to compliment new technology and demand.

Business-to-business electronic data interchange using purchasing card technology and associated systems software provides businesses with increased efficiency and us with strong growth in industries that have not traditionally utilized credit cards. Purchasing cards and the related business-to-business electronic data interchange replace the costly, time-consuming paper ordering and invoicing with inexpensive, real-time electronic payment processing transactions.

VISA has recently announced that they will begin offering cards containing chip technology in Canada. Chip technology can securely store and encrypt confidential information. The chip is virtually impossible to copy and has the power to be programmed with spending and usage limits making it possible to authorize transactions off-line. Chip technology will enable a host of additional features including a choice of applications such as loyalty, access control, rewards, and public transit passes. This complex project to offer chip technology in the Canadian marketplace is expected to take up to seven years for all participants to implement the equipment necessary to accept and process the chip card compliant transactions. We have been working to develop a long-term plan to ensure our merchants will benefit from the migration to chip technology in the Canadian market.

We believe that the number of electronic transactions will continue to grow in the future and that an increasing percentage of these transactions will be processed through emerging technologies, such as wireless payment products, stored value cards and other custom payment solutions. We have focused on bringing niche wireless POS products and services into the mainstream. Today, we offer products that meet the needs of fixed location, portable and mobile merchants. We have also participated in multiple wireless payment card pilots, also known as Radio Frequency Identification, RFID or contact less payment card pilots, designed to decrease consumer checkout time allowing our merchants to service more customers and process more transactions. We continue our development of a new electronic check system, which the industry sometimes refers to as check truncation or conversion, designed to further reduce our customer’s paper handling cost by converting paper checks into an electronic ACH file transaction. In anticipation of the growing demand for Internet communications by traditional merchants we are focused on developing new and secure solutions. These emerging technologies will be a major factor in accelerating the continued conversion from paper transaction processing to electronic transaction processing, which will result in greater growth opportunities for our business.

Strategy

Our business strategy centers on providing a full range of electronic transaction processing services in our existing markets and expanding into new markets through customer service, products and services, strategic acquisitions and new relationships with trade associations and agent banks. We believe that this strategy provides us with the greatest opportunity for leveraging our existing infrastructure and maintaining a consistent base of recurring revenues. We believe that the electronic commerce market presents additional attractive opportunities for continued growth. In pursuing our business strategy, we seek to increase our penetration of existing markets, to continue to identify and create new markets, such as the electronic commerce market, and to further leverage our infrastructure through the following:

- providing the best possible customer service by investing in technology, training and product enhancements;
- expanding distribution channels, primarily direct merchant services, ISOs, and CAPs;
- growing our domestic and Canadian market share by concentrating on the mid-market segment in the United States and on the small and mid-market segment in Canada;

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- providing the latest, secure, enhanced products and services by developing value-added applications, enhancing existing products, and developing new systems and services to blend technology with our customer needs;
- continuing systems integrations, primarily consolidation of operating platforms and implementation of cost reduction initiatives; and
- focusing on potential acquisitions, investments and alliances with companies that have compatible products, services, development capabilities and distribution capabilities in the direct card business (domestic and international).

Banking Regulations

Canadian Imperial Bank of Commerce, or CIBC, owns 26.3% of our common stock outstanding. As a result of CIBC's equity interest in our company, we are considered a subsidiary of CIBC for U.S. bank regulatory purposes. CIBC is a Canadian Bank with operations in the United States. Accordingly, CIBC is regulated in the U.S. as a foreign bank and, as a result, is subject to most of the same limitations as a U.S. bank holding company under provisions of the Bank Holding Company Act. As a subsidiary of CIBC for U.S. bank regulatory purposes, we are subject to those same regulations. We are also subject to examination by the Federal Reserve Board. As a general matter, we are able to operate our merchant services and funds transfer businesses as we have historically, but our ability to expand into unrelated businesses may be limited unless they are activities that the Bank Holding Company Act allows or the Federal Reserve Board approves.

Bank holding companies may engage in the business of banking, managing and controlling banks, and in other activities so closely related to managing and controlling banks as to be a proper incident thereto. The Gramm-Leach-Bliley Act, enacted in 1999, amended the Bank Holding Company Act to allow greater operational flexibility for bank holding companies that are well-capitalized, well-managed and meet certain other conditions. Such companies are referred to as "financial holding companies." Financial holding companies may engage in activities that are financial in nature, or that are incidental or complimentary to financial activities. The legislation defines securities and insurance activities as being permissible financial activities, allows certain merchant banking activities, and establishes a procedure for the Federal Reserve Board, together with the U.S. Treasury Department, to announce additional permissible activities.

As a foreign bank, CIBC may qualify for financial holding company status and has done so. If a financial holding company falls out of compliance with the well-managed, well-capitalized, community reinvestment requirements, it must enter into an agreement with the Federal Reserve to rectify the situation. The Federal Reserve may refuse to allow the financial holding company, which would include its subsidiaries, to engage in new "financial" activities; may require it to cease current "financial" activities; and may require it to divest its bank.

The merchant services and funds transfer businesses that we conduct are permissible activities for bank holding companies (as well as financial holding companies) under U.S. law, and we do not expect the limitations described above to adversely affect our current operations. It is possible, however, that these restrictions might limit our ability to enter other businesses that we may wish to engage in at some time in the future. It is also possible that these laws may be amended in the future, or new laws or regulations adopted, that adversely affect our ability to engage in our current or additional businesses.

Additionally, CIBC is subject to the *Bank Act* (Canada), which, among other things, limits the types of business which CIBC may conduct, directly or indirectly, and the types of investments which CIBC may make. CIBC's shareholding in our company is currently permitted under the *Bank Act*. The *Bank Act*, except as we have discussed, does not otherwise apply to us.

Under the *Bank Act*, CIBC is permitted to continue to hold its interest in us, as long as the business undertaken by us is consistent with the applicable provisions of the *Bank Act*. If we undertake businesses inconsistent with the businesses in which CIBC is permitted to hold an interest, CIBC may be required, pursuant to the provisions of the *Bank Act*, to dispose of its shares prior to the expiration of the restrictions on re-sale that we have negotiated with CIBC.

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We have agreed with CIBC, in effect, that we will not undertake any business inconsistent with the applicable provisions of the *Bank Act*. We do not anticipate that compliance with this undertaking will affect, in any material way, our ability to carry on the merchant services and funds transfer businesses. Our ability to expand into other businesses will be governed by the undertaking and the applicable provisions of Canadian banking legislation at the relevant time. There is no assurance that subsequent amendments to the *Bank Act* will not adversely affect our ability to carry on our business in some respects.

ITEM 2—PROPERTIES

Our corporate headquarters are located at Four Corporate Square in Atlanta, Georgia, where we lease from NDC a five-story, 85,000 square foot building. This lease expires in January 2004 unless extended prior to that time. We are currently negotiating an extension of this lease. Our merchant acquiring business back-office and customer service operation is located in a 105,000 square foot facility that we lease in Owings Mills, Maryland. In addition, we lease a total of 27 other facilities in the United States, one in Peterborough, United Kingdom, two in Toronto, Canada, and eight others throughout the rest of Canada. We own or lease a variety of computers and other related equipment for our operational needs. We continue to upgrade and expand our computers and related equipment in order to increase efficiency, enhance reliability, and provide the necessary base for business expansion.

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

ITEM 3—LEGAL PROCEEDINGS

We are party to a number of claims and lawsuits incidental to the normal course of our business. In our opinion, the ultimate outcome of such matters, in the aggregate, will not have a material adverse impact on our financial position, liquidity or results of operations. For additional information, refer to Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations, Forward-Looking Results of Operations—Airlines.

ITEM 4—SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our shareholders during our fourth quarter ended May 31, 2003.

PART II

ITEM 5—MARKET FOR REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock began trading on the New York Stock Exchange under the ticker symbol “GPN” on February 1, 2001. The table set forth below provides the intraday high and low sales prices and dividends paid per share of our common stock for the four quarters during fiscal 2003 and 2002. We expect to continue to pay our shareholders a dividend per share in amount comparable to that indicated in the table and to continue to do so on a quarterly basis. However, any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and such other factors as the board of directors deems relevant.

	<u>High</u>	<u>Low</u>	<u>Dividend Per Share</u>
Fiscal 2003			
First Quarter	\$ 36.70	\$ 22.00	\$ 0.04
Second Quarter	30.30	21.00	0.04
Third Quarter	32.24	26.89	0.04
Fourth Quarter	34.00	26.00	0.04
Fiscal 2002			
First Quarter	\$ 37.30	\$ 26.01	\$ 0.04
Second Quarter	37.00	22.10	0.04
Third Quarter	36.45	29.50	0.04
Fourth Quarter	39.70	30.60	0.04

The number of shareholders of record of our common stock as of July 31, 2003 was 2,845.

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You should read the selected financial data set forth below in conjunction with “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8—Financial Statements and Supplementary Data” included elsewhere in this annual report. The income statement data for each of the three fiscal years ended May 31, 2003, and the balance sheet data as of May 31, 2003 and 2002 are derived from the audited consolidated financial statements included elsewhere in this annual report. The balance sheet data as of May 31, 2001 and 2000 and the income statement data as of May 31, 2000 was derived from audited consolidated financial statements included in our Form 10-K for the fiscal year ended May 31, 2001. The income statement data for the fiscal year ended May 31, 1999 and the balance sheet data as of May 31, 1999 are derived from the audited consolidated financial statements included in our Registration Statement on Form 10 filed with the SEC on September 8, 2000, as subsequently amended.

	For Year Ended May 31, (In thousands, except per share data)				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Income statement data:					
Revenue	\$ 516,084	\$ 462,826	\$ 353,195	\$ 340,033	\$ 330,051
Operating income	93,265(1)	71,418(1)	53,046(1)	63,212	76,675
Income before cumulative effect of change in accounting principle	53,300	39,839	23,668	33,047	41,336
Cumulative effect of a change in accounting principle	—	(15,999)(2)	—	—	—
Net income	<u>\$ 53,300</u>	<u>\$ 23,840</u>	<u>\$ 23,668</u>	<u>\$ 33,047</u>	<u>\$ 41,336</u>
Per share data:					
Basic earnings per share:					
Income before cumulative effect of a change in accounting principle	\$ 1.44	\$ 1.09	\$ 0.83	\$ 1.24	\$ 1.53
Cumulative effect of accounting change	—	(0.44)	—	—	—
Net income	<u>\$ 1.44</u>	<u>\$ 0.65</u>	<u>\$ 0.83(3)</u>	<u>\$ 1.24(3)</u>	<u>\$ 1.53(3)</u>
Diluted earnings per share:					
Income before cumulative effect of a change in accounting principle	\$ 1.41	\$ 1.05	\$ 0.82	\$ —	\$ —
Cumulative effect of accounting change	—	(0.42)	—	—	—
Net income	<u>\$ 1.41</u>	<u>\$ 0.63</u>	<u>\$ 0.82</u>	<u>\$ — (4)</u>	<u>\$ — (4)</u>
Dividends per share	\$ 0.16	\$ 0.16	\$ 0.04(5)	\$ — (5)	\$ — (5)
Balance sheet data:					
Total assets	\$ 484,234	\$ 431,418	\$ 458,604	\$ 287,946	\$ 289,667
Line of credit	—	22,000	73,000	—	—
Due to NDC	—	—	—	96,125	89,375
Obligations under capital leases	4,707	7,310	4,713	7,232	15,774
Total shareholder’s equity	<u>366,426</u>	<u>296,288</u>	<u>271,022</u>	<u>119,795</u>	<u>106,923</u>

- (1) Includes restructuring and other charges of \$1,257, \$10,993 and \$4,882 in fiscal 2003, 2002 and 2001, respectively. See Note 11 of the Notes to Consolidated Financial Statements.
- (2) See Note 1 of the “Notes to Consolidated Financial Statements—Goodwill and Other Intangible Assets.”
- (3) Using the ratio of 0.8 of a share of Global Payments common stock for each share of NDC common stock held on January 31, 2001, or the Distribution Date, the date of NDC’s spin-off of its eCommerce business into Global Payments. Weighted average shares outstanding are computed by applying the distribution ratio to the historical NDC weighted average shares outstanding for all periods presented.
- (4) Diluted earnings per share is not presented in the selected financial data for historical periods prior to fiscal 2001 as Global Payments stock options did not exist prior to the Distribution Date.
- (5) Dividends were first paid in the fourth quarter of fiscal 2001, after the Distribution Date.

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

The following discussion and analysis contains forward-looking statements about our plans and expectations of what may happen in the future. Forward-looking statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, and our results could differ materially from the results anticipated by our forward-looking statements as a result of many known and unknown factors, including but not limited to those discussed in Exhibit 99.1 to this report. See also “Special Cautionary Notice Regarding Forward-Looking Statements” located above “Item 1—Business.”

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

General

We are a leading mid-market merchant acquirer in the United States, and the largest, publicly traded independent VISA and MasterCard acquirer in Canada. We provide a wide range of end-to-end electronic transaction processing solutions to merchants, corporations, financial institutions and government agencies. Our products and services are marketed through a variety of distinct sales channels that include a large, dedicated direct sales force, independent sales organizations, independent sales representatives, an internal telesales group, trade associations, alliance bank relationships and financial institutions.

We operate in one business segment, electronic transaction processing, and provide products and services through our merchant services and funds transfer offerings. Approximately 98% of our current revenue base is from merchant services offerings. The remaining 2% of our total revenue is from our funds transfer service offerings.

Merchant services include credit and debit card transaction processing, business-to-business purchase card transaction processing, check guarantee, check verification and recovery, and terminal management services. We have two basic business models. In one model, which we refer to as “direct” merchant services, we have a salaried and commissioned sales force and independent sales organizations, or ISOs, that sell our end-to-end services directly to merchants. In the other model, which we refer to as “indirect” merchant services, we provide unbundled products and services primarily to financial institutions that in turn resell to their merchants. Approximately 83% of our total revenue arose from direct merchant services and 15% arose from indirect merchant services.

Components of Income Statement

We derive our revenues from three primary sources: charges based on volumes and fees for merchant services; charges based on transaction quantity; and equipment sales, leases and service fees. Revenues generated by these areas depend upon a number of factors, such as demand for and price of our services, the technological competitiveness of our product offerings, our reputation for providing timely and reliable service, competition within our industry, and general economic conditions.

Cost of service consists primarily of: the cost of network telecommunications capability; transaction processing systems; depreciation and occupancy costs associated with the facilities performing these functions; and provisions for operating losses.

Sales, general and administrative expenses consist primarily of salaries, wages and related expenses paid to sales personnel; non-revenue producing customer support functions and administrative employees and

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management; commissions to independent contractors and ISOs; advertising costs; other selling expenses; employee training costs; and occupancy of leased space directly related to these functions.

Other income and expense primarily consists of minority interest in earnings, interest income and expense and other miscellaneous items of income and expense.

Results of Operations

Fiscal Year Ended May 31, 2003 Compared to Fiscal Year Ended May 31, 2002

In fiscal 2003, revenue increased \$53.3 million or 12% to \$516.1 million from \$462.8 million in fiscal 2002. Revenue growth is primarily driven by the growth in our direct merchant service offering in the United States and Canada. Excluding the impact of the National Bank portfolio acquisition that annualized in October 2002, and a stronger Canadian dollar relative to the prior year, our full year revenue growth is approximately 8%. Domestically, our direct card transactions growth ranged in the mid-teens which compares favorably to market trends of 12% for credit and debit card growth per *The Nilson Report* dated March 2003. We believe our transaction growth rates compared to the market trends, demonstrate that we continue to gain market share in both our domestic direct and ISO sales channels. Consistent with our domestic direct sales strategy, we continue to focus on ongoing revenue growth by signing mid-market merchants in various vertical markets to maintain our diversification. Our domestic direct sales force successfully signs thousands of mid-market merchants each quarter. In addition, our domestic average dollar value of transaction and net revenue per transaction have remained stable for the year, which we believe is a result of our diversified mid-market segmentation. The number of Canadian transactions continued to grow this year in the mid to high single digits. In addition, our Canadian average dollar value of transaction and net revenue per transaction have held relatively constant as we continue to further penetrate the Canadian market and successfully cross-sell between our VISA and MasterCard portfolios. Historically, the transaction growth in Canada is slower than our domestic transaction growth due to the maturity of the Canadian market. However, the revenue impact of slower Canada transaction growth in fiscal 2003 was slightly offset by the change in foreign exchange rates.

Our direct merchant service revenue growth is partially offset by expected declines in the mid-teens of our indirect and funds transfer businesses. The decline in revenue from indirect merchant services is primarily a result of the consolidating financial institution market. Revenue from the funds transfer business declined 10% to \$12.3 million in fiscal 2003, compared to \$13.7 million in fiscal 2002, partially due to the consolidation of our UK operations and discontinuance of new business development activities through our UK operations, previously announced during our fiscal 2002 fourth quarter. We also eliminated non-recurring product revenue from our funds transfer business.

Cost of service increased by \$8.2 million or 3% from \$252.1 million in fiscal 2002 to \$260.3 million in fiscal 2003. As a percentage of revenue, cost of service decreased to 50% in fiscal 2003 from 54% in fiscal 2002. This decrease in cost of service as a percentage of revenue is primarily due to the integration of our recent acquisitions and the implementation of cost reduction initiatives, including facility consolidations.

The increase in cost of service expenses for fiscal 2003 from the prior year's comparable period is primarily due to variable direct costs associated with the revenue increase, an increase in our provision for operating losses and non-recurring conversion costs, such as duplicate labor, relating to the National Bank back-end conversion, completed in early October 2002. The increase in provision for operating losses in fiscal 2003 was a result of the increase in credit and debit card volumes processed and losses associated with merchant fraud.

Sales, general and administrative expenses increased \$33.0 million or 26% to \$161.3 million in fiscal 2003 from \$128.3 million in the prior year's comparable period. As a percentage of revenue, these expenses increased to 31% for fiscal 2003, compared to 28% for fiscal 2002.

The increase in sales, general and administrative expenses in fiscal 2003, compared to the prior year comparable period is due to growth in commission payments to ISOs and the higher level of sales infrastructure and related costs to grow revenue. The increase in sales, general and administrative expenses as a percentage of

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revenue is due to the increase in ISO related commission payments. The ISO business generally produces lower margins than the other direct business due to the ongoing commission payments to the ISOs.

During the fourth quarter fiscal 2003, we initiated the closure and consolidation of three operating facilities and their related functions into existing operating centers. We implemented the plan in April 2003 and expect to complete it by the fourth quarter of fiscal 2004. Our facility closure plan includes the following:

- closing our Cleveland merchant settlement function and consolidating it to our Baltimore facility;
- relocating our terminal deployment and related services from our Winston-Salem facility to our Baltimore and St. Louis facilities; and
- relocating our Salt Lake City check operation to our primary check operating facility in Niles, Illinois.

We anticipate total costs and expenses associated with the plan to be approximately \$8 million. One-time employee termination benefits will be approximately \$4 million and the balance relates to contract termination and other related facility closure costs and expenses. The fourth quarter and full year fiscal 2003 results included a net restructuring charge of \$1.3 million related to the consolidation plan. Accordingly, we expect approximately \$6.5 million to be incurred during fiscal 2004 related to these activities.

During fiscal 2002, we incurred restructuring and other charges of \$11.0 million. During the fourth quarter of fiscal 2002, we completed plans for the closing of four locations including associated management and staff reductions. Of the \$11.0 million in charges, \$1.5 million related to facility closing costs; \$6.7 million related to severance and related costs; and \$2.8 million related to other costs. See Note 11 in the Notes to Consolidated Financial Statements appearing elsewhere in this report for more details on the restructuring and other charges incurred in both fiscal years ended and the charges expected to be incurred during fiscal 2004.

Operating income is \$93.3 million for fiscal 2003, compared to \$71.4 million in the prior year's comparable period. This resulted in an increase in operating margin from 15.4% for fiscal 2002 to 18.1% for fiscal 2003. This operating income and related operating margin reflects restructuring and other charges of \$1.3 million and \$11.0 million in fiscal 2003 and 2002, respectively. The changes in operating income and operating margins are due to the revenue and cost factors described above. The fixed cost nature of the business resulted in higher income in fiscal 2003 than in fiscal 2002.

In fiscal 2002, we recorded a charge of \$16.0 million, net of tax, for the cumulative effect of a change in accounting principle related to an indefinite life intangible asset, a trademark, with a carrying value of \$24.6 million at June 1, 2001. The trademark was acquired on April 1, 1996 with the purchase of 92.5% ownership interest in MasterCard International's Merchant Automated Point-of-Sale Program, or MAPP. The value of the trademark related to the use of the MAPP name and logo. In connection with the spin-off from NDC, we launched a rebranding effort under the Global Payments Inc. name and logo. In addition, effective June 1, 2001, we purchased MasterCard's remaining minority interest, ending all existing marketing alliances with MasterCard, and conducted a study related to the future use of the trademark. In fiscal 2002, we completed an appraisal with an independent valuation firm of the fair value of the trademark as of June 1, 2001, the implementation date of SFAS No. 142. Based on the lack of continuing use of the MAPP trademark as of June 1, 2001, the fair value of the trademark was determined to be zero. In accordance with SFAS No. 142, the \$24.6 million (\$16.0 million, net of tax, or \$0.42 diluted earnings per share) was written off as of June 1, 2001 and was recorded as a cumulative effect of a change in accounting principle.

Net income increased \$29.5 million or 124% to \$53.3 million in fiscal 2003 from \$23.8 million in the prior year's comparable period, resulting in a \$0.78 increase in diluted earnings per share to \$1.41 from \$0.63. This net income and diluted earnings per share reflects restructuring and other charges, net of tax, of \$0.8 million or \$0.02 diluted earnings per share and \$6.8 million or \$0.18 diluted earnings per share in fiscal 2003 and 2002, respectively. Also, net income for fiscal 2003 is comparable to income before cumulative effect of a change in accounting principle in fiscal 2002, since there were no changes in accounting principle recorded in fiscal 2003. Our effective tax rate was 37.4% in fiscal 2003 as compared to 38.2% in fiscal 2002, as a result of the impact of our acquisitions and tax planning initiatives. For fiscal 2004, we continue to plan for a 37.4% tax rate.

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Fiscal Year Ended May 31, 2002 Compared to Fiscal Year Ended May 31, 2001

In fiscal 2002, revenue increased \$109.6 million or 31% to \$462.8 million from \$353.2 million in fiscal 2001. The increase in revenue was primarily due to the CIBC, Imperial Bank, and National Bank portfolio acquisitions as well as continued growth in our direct merchant services business. Our ISO sales channel also continued to be a strong contributor to revenue, while revenues from our indirect merchant services and funds transfer declined as forecasted. The growth in direct merchant card services revenue was due primarily to our portfolio acquisitions, the addition of new merchant relationships, including those added through our ISO relationships, and increased usage of credit cards and debit cards within our existing merchant customers. The decline in revenue from indirect merchant services was primarily a result of the consolidating financial institution market. Funds transfer is a mature market and although we continue to service our existing customers we do not intend to invest in this area.

In fiscal 2001, we recorded approximately \$13.9 million in non-recurring revenue. We divested our card issuing business for cash consideration approximately equal to its net book value. The revenue from the card issuing business in fiscal 2001 was \$2.9 million. In addition, we had \$11.0 million of other non-recurring revenue during fiscal 2001. We decided to significantly reduce our bulk terminal equipment sale business during the first quarter of fiscal 2002, which did not produce meaningful operating income. The revenue from the bulk terminal business decreased by \$4.0 million to \$2.4 million in fiscal 2002 from \$6.4 million in fiscal 2001. Further, we provided processing services during fiscal 2001 to CIBC and Imperial Bank for which, after the related portfolio acquisitions, we were no longer able to record as revenue externally. The revenue recorded during fiscal 2001 from these institutions was approximately \$1.3 million. We also recorded \$5.7 million in non-recurring revenue from a limited number of customers, of which approximately \$2.5 million related to non-recurring chargeback services and \$3.2 million related to our non-core domestic funds transfer business.

Cost of service increased by \$59.7 million or 31% from \$192.4 million in fiscal 2001 to \$252.1 million in fiscal 2002. As a percentage of revenue, cost of service remained unchanged from 54% in both fiscal 2002 and 2001. The increase in cost of service expenses was attributable to the inclusion of costs associated with CIBC's and Imperial Bank's merchant acquiring businesses, which we acquired in the fourth quarter of fiscal 2001, and National Bank's merchant acquiring business, which we acquired in the second quarter of fiscal 2002. In addition, cost of service increased in 2002 due to our provision for operating losses, from \$8.4 million in fiscal 2001 to \$9.8 in fiscal 2002. The increase in operating losses in fiscal 2002 was a result of the increase in credit and debit card volumes processed and losses associated with merchant fraud.

On July 20, 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires that goodwill be evaluated for impairment by applying a fair value-based test. We adopted this standard in the first quarter of fiscal 2002. In accordance with SFAS No. 142, we discontinued the amortization of goodwill and certain intangible assets that were determined to have an indefinite life. The cost of service increases were partially offset by a decrease associated with the adoption of SFAS No. 142, which lowered amortization expense by \$7.4 million in fiscal 2002, and a decrease of \$2.3 million in other costs associated with the divested card issuing business in fiscal 2001.

Sales, general and administrative expenses increased \$25.4 million or 25% to \$128.3 million in fiscal 2002 from \$102.9 million in fiscal 2001. As a percentage of revenue, these expenses decreased to 28% in fiscal 2002, compared to 29% in fiscal 2001. The increase in sales, general and administrative expenses was due to the higher level of sales infrastructure, personnel and related costs to grow revenue, the inclusion of merchant acquiring portfolio acquisitions, growth in commission payments to ISOs, and the CIBC and Imperial Bank merchant acquiring portfolio back-end conversion costs, offset by a decrease of \$0.7 million associated with the divested card issuing business in fiscal 2001. The decrease in sales, general and administrative expenses as a percentage of revenue was due to a reduction of administrative costs related to the consolidation of business locations and acquisition integrations.

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In fiscal 2002, we continued our efforts to streamline operations through office consolidations and incurred restructuring and other charges of \$11.0 million. During the fourth quarter of fiscal 2002, we completed plans for the closing of four locations including associated management and staff reductions. Of the \$11.0 million in charges, \$1.5 million related to facility closing costs; \$6.7 million related to severance and related costs; and \$2.8 million related to other costs. In the fourth quarter of fiscal 2001, we incurred a \$4.9 million restructuring charge related to office consolidations and severance payments to terminated employees. See Note 11 in the Notes to Consolidated Financial Statements appearing elsewhere in this report for more details on these restructuring and other charges.

Operating income increased \$18.4 million or 35% to \$71.4 million in fiscal 2002 from \$53.0 million in fiscal 2001. This operating income reflects restructuring and other charges of \$11.0 million and \$4.9 million in fiscal 2002 and 2001, respectively. The increase in operating income and operating income margin was attributable to synergies from our acquisition integration efforts, improvement due to the ISO sales channel growth and the reduction of administrative costs related to the consolidation of business locations. However, the improvements were partially offset by the impact of the restructuring and other charges and the continued declines in our indirect merchant services and funds transfer businesses, discussed above.

Other expense, net decreased by \$7.6 million or 52% to \$7.0 million for fiscal 2002 from \$14.6 million for fiscal 2001. This decrease is primarily due to a one-time charge of \$5.0 million in fiscal 2001 associated with the non-cash loss on an investment. We held a \$5.0 million investment in eCharge Corporation, a private company that offers Internet users secure and convenient ways to make purchases over the Internet. During the fourth quarter ended May 31, 2001, we completed an evaluation of this investment as it had experienced difficulty securing additional funding. As a result, we determined the carrying value of the investment was not recoverable and recognized a loss on investment of \$5.0 million in fiscal 2001. The balance of the decrease in net other expense was due to lower variable interest rates on our credit facilities in fiscal 2002 and the buyout of the MasterCard minority interest in Global Payment Systems LLC effective June 1, 2001. Also, the decrease in outstanding balances on the credit facilities resulted in lower interest expense in fiscal 2002.

Income before a cumulative effect of a change in accounting principle increased \$16.1 million or 68% to \$39.8 million in fiscal 2002 from \$23.7 million in fiscal 2001. This was due to improvements in income before tax, discussed above, and in part to a decrease in our effective tax rate from 38.5% during fiscal 2001 to 38.2% during fiscal 2002. The income before a cumulative effect of a change in accounting principle includes the after-tax effect of the restructuring and other charges in fiscal 2002 and 2001 and the non-cash loss on the investment in fiscal 2001. The decreases in the tax rate were due in part to tax credits and the adoption of SFAS No. 142, discussed in Notes 1 and 6 to the Notes to Consolidated Financial Statements.

In fiscal 2002, we recorded a charge for the cumulative effect of a change in accounting principle related to an indefinite life intangible asset, a trademark, with a carrying value of \$24.6 million at June 1, 2001, that was determined to have no fair value. In accordance with SFAS No. 142, the \$24.6 million (\$16.0 million, net of tax, or \$0.42 diluted earnings per share) was written off as of June 1, 2001 and was recorded as a cumulative effect of a change in accounting principle. See Note 1 in the Notes to Consolidated Financial Statements appearing elsewhere in this report and Results of Operations for the fiscal year ended May 31, 2003 compared to fiscal year ended May 31, 2002 above for more details.

Diluted earnings per share calculated on income before a cumulative effect of a change in accounting principle increased 28% to \$1.05 in fiscal 2002 from \$0.82 in fiscal 2001. The increase in earnings per share before the cumulative effect of a change in accounting principle was due to an increase in income and was impacted by the additional shares outstanding as a result of the stock issued in consideration of the purchase of CIBC's merchant acquiring portfolio.

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Liquidity and Capital Resources

Cash flow generated from operations provides us with a significant source of liquidity to meet our needs. At May 31, 2003, we had cash and cash equivalents totaling \$38.0 million. Net cash provided by operating activities decreased \$124.9 million to \$35.6 million for fiscal 2003 from \$160.5 million for fiscal 2002. This decrease is primarily due to the impact of the change in net merchant processing from cash provided by operating activities of \$69.1 million in fiscal 2002 to cash used by operating activities of \$89.3 million in fiscal 2003. The change in net merchant processing was primarily due to the change in working capital associated with our Canadian merchant processing during the year ended May 31, 2003. Our Canadian credit facility was amended in December 2002 to provide our CIBC merchants in Canada with "same-day value". Prior to this amendment, CIBC provided the funding directly to support the same-day value practice. Since the amendment in December 2002, we are providing the merchants with same-day value, resulting in a net receivable balance due from the card associations. See additional discussion under Credit Facilities below. Excluding the impact of the change in net merchant processing working capital from cash provided by operating activities, our cash flow growth is attributed to increases in our direct card business, including the Canadian businesses. This cash flow growth also benefited from a favorable variance in deferred income taxes due to tax planning initiatives, and an increase in other non-cash operating items, such as provision for bad debt and foreign currency translations adjustments.

Net cash used in investing activities decreased \$68.4 million to \$19.1 million for fiscal 2003 from \$87.5 million for fiscal 2002. This decrease was primarily due to a decline in business development activities relating to acquisitions in the year ending May 31, 2003, compared to the prior year. Excluding the impact of any acquisitions in fiscal 2004, we expect approximately \$15 million to \$20 million in total capital spending, primarily related to continued office consolidations, systems infrastructure, acquisition of Canadian merchant terminals and product development.

Net cash provided by financing activities was \$2.3 million for fiscal 2003 compared to net cash used in financing activities of \$59.8 million for fiscal 2002. During fiscal 2003, we paid the remaining \$22.0 million on our line of credit balance outstanding at May 31, 2002. However, we had borrowed at May 31, 2003, \$33.9 million associated with our Canadian credit facility to support our merchant funding. We periodically use our lines of credit, reflecting the funding of timing differences between merchant funding and receipts from card associations and the debit networks. See additional discussion under Credit Facilities below.

We believe that our current level of cash and borrowing capacity under our committed lines of credit described below, together with future cash flows from operations, are sufficient to meet the needs of our existing operations and planned requirements for the foreseeable future. We currently do not have any material capital commitments, other than commitments under capital and operating leases or planned expansions. We may develop our own hardware and software facilities for the transaction processing, cash management, file transfer and related communications functions in an effort to improve productivity and reduce cost of services. If undertaken, this development would further increase our capital expenditures above historical levels.

We regularly evaluate cash requirements for current operations, commitments, development activities and acquisitions and we may elect to raise additional funds for these purposes in the future, either through the issuance of debt, equity or otherwise. Our cash flow strategy has remained unchanged and is to first pay off debt arising from the timing of working capital needs, second to pursue accretive acquisitions and third to continue to make capital investments in our business.

Credit Facilities

We have a commitment for a \$125 million revolving line of credit. It was initially used to fund the cash due to NDC to reflect our share of debt incurred by NDC prior to our spin-off to establish our initial capitalization. This line of credit is also available to meet working capital needs and to finance acquisitions. This line has a variable interest rate based on market rates. The credit agreement contains certain financial and non-financial covenants and events of default customary for financings of this nature. The facility has a three-year term, expiring in January 2004. We are currently negotiating with the lender to extend the term of this facility. The full

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amount outstanding is due upon demand and, therefore, we classify any amount outstanding as a current liability. As of May 31, 2002, we had \$22.0 million outstanding under this facility and no amounts outstanding at May 31, 2003.

On October 1, 2001, we obtained a commitment for a \$25 million revolving credit facility to finance working capital needs and other general corporate purposes. This line has a variable interest rate based on market rates. The credit agreement contains certain financial and non-financial covenants and events of default customary for financings of this nature. The credit facility originally had a sixteen-month term, expiring in January 2003. Prior to its expiration, we executed an amendment with the lender to extend the term of this facility for an additional twelve months through January 2004. At May 31, 2003 and May 31, 2002, there were no amounts outstanding on this credit facility.

We also have a credit facility from CIBC that provides a line of credit up to \$175 million (Canadian dollars), approximately \$128 million U.S., with an additional overdraft facility available to cover larger advances during periods of peak usage of credit cards. This line has a variable interest rate based on market rates and it contains certain financial and non-financial covenants and events of default customary for financings of this nature. This line of credit is secured by a first priority security interest in our accounts receivable from VISA Canada/International, and has been guaranteed by our subsidiaries. This guarantee is subordinate to our primary credit facility. On December 10, 2002, we executed a third amendment to this credit facility which extended the term of the facility for an additional 364 days through December 9, 2003 and provided for the incurrence of interest costs in connection with offering merchants "same day value" for their deposits. Same day value, which has been an accepted industry practice in Canada for more than ten years, is the practice of giving merchants same day value for their sales transactions, even though their deposits are made at a later date. Essentially, the merchant's deposits are backdated to the date of the applicable sales transaction. Under the terms of the credit agreement prior to the execution of the third amendment, CIBC credited the merchants' deposit account for their sales transactions on the day of the transaction and we reimbursed CIBC when we received the corresponding funding from the card association. At May 31, 2002, there were no amounts outstanding on this facility. At May 31, 2003, there were \$46.3 million (Canadian dollars), or approximately \$33.9 million U.S. outstanding on this credit facility. This amount is included as of component of the net merchant processing receivable on the balance sheet. The amount borrowed is restricted in use to pay merchants and will be received from the card associations on the following day.

Forward-Looking Results of Operations

During fiscal 2004, we intend to continue to focus on growing our domestic and Canadian presence, build our ISO sales channel, increase customer satisfaction, assess opportunities for profitable acquisition growth, pursue enhanced products and services for our customers, and leverage our existing business model. Consistent with this strategy, our expectation for fiscal 2004 revenue is \$542 million to \$562 million, or 5% to 9% growth, compared to \$516 million in fiscal 2003. We expect net interest and other expense to approximate fiscal 2003 levels in fiscal 2004 and minority interest will grow in fiscal 2004 at rates consistent with our overall earnings growth. Our expectation for fiscal 2004 diluted earnings per share is \$1.57 to \$1.64 or 10% to 15% growth, compared to diluted earnings per share of \$1.43 in fiscal 2003, excluding the impact of restructuring charges in both periods. The earnings per share target reflect our expectation of achieving operating margin of 19% to 19.5% in fiscal 2004, excluding the impact of restructuring charges. The forward-looking statement in this Management Discussion and Analysis does not reflect the impact of potential acquisitions and acquisitions announced after May 31, 2003. We intend to provide revised guidance after the closing of any acquisitions consummated in fiscal 2004.

Airlines

We currently process card transactions for Air Canada, the single largest airline in Canada, which according to its Revised Renewal Annual Information Form, dated May 15, 2003, held approximately 60% of the Canadian domestic market share and approximately 43% of the Canadian transborder market share during the first quarter of 2003. Our revenue from this relationship represents less than 1% of our consolidated revenue. On April 1, 2003, Air Canada filed for and obtained protection from the court under the Companies' Creditors Arrangement

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Act, which generally allows a company to reorganize while it continues normal operations with the assistance of a court-appointed Monitor. It is our understanding that the court order provides for a general stay that precludes its creditors and others from taking any action against Air Canada. The purpose of the stay is to provide Air Canada with relief designed to stabilize operations and business relationships with customers, vendors, employees and creditors. The court order also provides that Air Canada shall honor all airline tickets in the usual and ordinary course of business.

In the event that Air Canada's restructuring is not successful and it is liquidated, there will likely be limited assets available from which to pay creditor claims. If the restructuring is not successful and any of Air Canada's liability for deferred ticket revenues is unfunded and such charges are properly reversed by VISA and MasterCard cardholders, we may be liable for such reversed charges under the chargeback rules of these card associations; for more details, refer to *Reserve for operating losses* under Note 1 in the Notes to Consolidated Financial Statements appearing elsewhere in this report. According to the Eighth Report of the Monitor dated July 31, 2003, deferred ticket revenues for Air Canada as of June 30, 2003, representing advance ticket sales collected, were approximately \$566 million Canadian, or \$420 million U.S., based on then existing exchange rates. In conjunction with the acquisition of the merchant acquiring business of CIBC in March 2001, CIBC agreed to reimburse us by the amount, if any, that Air Canada's VISA chargebacks and credit losses for any 12 month period exceed twice the level of VISA chargebacks and credit losses experienced during the one-year period ending October 31, 1999. This reimbursement obligation is scheduled to expire on March 20, 2004. Based on an April 21, 2003 affidavit of M. Robert Peterson, Chief Financial Officer of Air Canada, it is our understanding that 80% of Air Canada customers elect to pay using credit cards and, of those credit card users, 29.3% use VISA cards and 8.4% use MasterCard cards. Therefore, based on the information contained in the affidavit of M. Robert Peterson, the information contained in Eighth Report of the Monitor, and taking into consideration CIBC's reimbursement obligations for Air Canada's chargebacks and credit losses, we believe our maximum potential chargeback liability exposure relative to Air Canada as of June 30, 2003 is \$38-\$48 million Canadian, or \$28-\$35 million U.S., based on existing exchange rates.

As a result of our exposure, we filed a motion for court ordered protection for our chargeback liability exposure. The supervising judge dismissed our application on the basis that the Companies' Creditors Arrangement Act does not provide protection to credit card processors for this risk. We appealed the decision to the Court of Appeal (Ontario). The Court of Appeal upheld the supervising judge's decision. As a consequence of the dismissal of our motion and appeal, we are compelled by court order to continue to provide VISA card processing and MasterCard card processing in accordance with the ordinary course of the processing relationship as it existed immediately prior to Air Canada's filing under the Companies' Creditors Arrangement Act. However, effective June 1, 2003, we were permitted to collect our fee revenue daily (also known as daily discount) or as we process card transactions. This has significantly mitigated our exposure to potential losses from unpaid fees.

The VISA merchant processing agreement expires on April 30, 2005 and the MasterCard merchant processing agreement expired on or about January 1, 1997. We intend to terminate the MasterCard processing relationship at the earliest opportunity. At this time, it is not clear when we will be able to terminate such processing relationship.

We are continuing to closely monitor Air Canada's restructuring. Based on information currently available to us, which primarily consists of publicly available information, we believe a material loss is unlikely as long as Air Canada continues to honor all airline tickets in the ordinary course of business and is not a factor in our guidance for fiscal year 2004.

Application of Critical Accounting Policies

In applying the accounting policies that we use to prepare our consolidated financial statements, we necessarily make accounting estimates that affect our reported amounts of assets, liabilities, revenues and expenses. Some of these accounting estimates require us to make assumptions about matters that are highly uncertain at the time we make the accounting estimates. We base these assumptions and the resulting estimates

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on historical information and other factors that we believe to be reasonable under the circumstances, and we evaluate these assumptions and estimates on an ongoing basis. However, in many instances we reasonably could have used different accounting estimates, and in other instances changes in our accounting estimates are reasonably likely to occur from period to period, with the result in each case being a material change in the financial statement presentation of our financial condition or results of operations. We refer to accounting estimates of this type as “critical accounting estimates.” Among those critical accounting estimates that we believe are most important to an understanding of our consolidated financial statements are those that we discuss below.

Accounting estimates necessarily require subjective determinations about future events and conditions. Therefore, the following descriptions of critical accounting estimates are forward-looking statements, and actual results could differ materially from the results anticipated by these forward-looking statements. You should read the following in conjunction with Note 1 of our Notes to Consolidated Financial Statements and “Risk Factors” contained in Exhibit 99.1 to this annual report.

Reserve for operating losses—We have a reserve for operating losses. We process credit card transactions for our direct merchants. Our merchant customers have the liability for any charges properly reversed by the cardholder. In the event, however, that we are not able to collect such amount from the merchants, due to merchant fraud, insolvency, bankruptcy or any other reason, we may be liable for any such reversed charges. We require cash deposits, guarantees, letters of credit and other types of collateral by certain merchants to minimize any such contingent liability. We also utilize a number of systems and procedures to manage merchant risk. In addition, we believe that the diversification of our merchant portfolio among industries and geographic regions minimizes our risk of loss.

We recognize most revenue based on a percentage of the gross amount charged and have a potential liability for the full amount of the merchant sales volume. We establish valuation allowances for operational losses based primarily on historical experience and other relevant factors. Economic downturns or increases in merchant fraud may result in significant increases in credit related issues. As of May 31, 2003, we have \$5.4 million in reserves for losses associated with operating merchant card processing. Expenses of \$15.6 million, \$9.8 million and \$8.4 million were recorded for fiscal 2003, 2002 and 2001, respectively, for these losses.

We also have a check guarantee business. Similar to the credit card business, 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 establish a valuation allowance for this activity based on historical and projected loss experiences. As of May 31, 2003, the Company had a check guarantee reserve of \$3.2 million. Expenses of \$10.4 million, \$12.4 million and \$9.9 million were recorded for fiscal 2003, 2002 and 2001, respectively, for these losses. The estimated check returns and recovery amounts are subject to the risk that actual amounts returned and recovered in the future may differ significantly from estimates used in calculating the valuation allowance.

Impact of New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* or SFAS No. 146. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” Statement 146 replaces Issue 94-3. We adopted this Statement effective for applicable activities initiated after December 31, 2002.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* or FIN No. 45. FIN No. 45 requires footnote disclosure of the guarantees or indemnification agreements a

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company issues. With certain exceptions, these agreements will also require a company to prospectively recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of the Interpretation are effective for financial statements of the interim or annual periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of FIN No. 45 did not have a material impact on our consolidated financial position, results of operations, or cash flows for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN No. 45 are included in Note 1 or our Notes to Consolidated Financial Statement relative to our check guarantee services revenue recognition and reserve for operating losses.

In December 2002, the Financial Accounting Standards Board issued Statements of Financial Accounting Standard No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* or SFAS No. 148. SFAS No. 148 addresses alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the Statement amends the disclosure requirements of Statements of Financial Accounting Standard No. 123, “Accounting for Stock-Based Compensation” to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Additional information is included in Note 1 of our Notes to Consolidated Financial Statements.

ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Based on analyses completed and described below, we do not believe that we are exposed to material market risk from changes in interest rates and/or foreign currency rates.

Interest Rate Risk

Our \$125 million revolving line of credit has a variable interest rate based on the London Interbank Offered Rates, or LIBOR. Accordingly, we are exposed to the impact of interest rate fluctuations. We have performed an interest rate sensitivity analysis over the near term with a 10% change in interest rates. A 10% proportionate increase in interest rates would have resulted in no effect in fiscal 2003 and a decrease in net income of \$0.1 million in fiscal 2002.

Foreign Currency Risk

We generate a percentage of our net income from foreign operations. We are vulnerable to fluctuations in the Canadian dollar and British pound against the United States dollar and have performed a foreign exchange sensitivity analysis over the near term with a 10% change in foreign exchange rates. Assuming a 10% appreciation or depreciation in exchange rate of the British pound and the Canadian dollar would result in net increase or decrease of \$3.7 million in income. This analysis does not take into effect the change in revenue that may result from such a change in exchange rate.

Derivative Financial Instruments

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

ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Global Payments Inc.:

We have audited the accompanying consolidated balance sheets of Global Payments Inc. (a Georgia corporation) and subsidiaries ("the Company") as of May 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. Our audits also included the 2003 and 2002 financial statement schedule listed in the Index at Item 16. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. The consolidated financial statements and financial statement schedule for the Company for the year ended May 31, 2001, before the inclusion of the additional disclosures discussed in Notes 2 and 6 to the financial statements, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements and stated that such financial statement schedule, when considered in relation to the 2001 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein, in their reports dated July 17, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, the 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of Global Payments Inc. and subsidiaries as of May 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the 2003 and 2002 financial statement schedule, when considered in relation to the 2003 and 2002 basic consolidated financial statements taken as whole, presents fairly, in all material respects, the information set forth therein.

As discussed above, the consolidated financial statements of Global Payments Inc. for the year ended May 31, 2001 were audited by other auditors who have ceased operations. As described in Note 6, the 2001 financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as of June 1, 2001. We performed the following audit procedures with respect to the disclosures in Note 6 with respect to 2001. We (i) agreed the adjustments to reported net income representing goodwill and trademark amortization expense (including any related tax effects) recognized in those periods to the Company's underlying accounting records obtained from management, and (ii) tested the mathematical accuracy of the reconciliation of reported net income to adjusted net income, and the related earnings per-share amounts. Additionally, the seventh and eighth paragraphs of Note 2 contain disclosures related to 2001 that were not previously included in the 2001 notes to the financial statements. The additional disclosures relate to a 2001 acquisition and are required under Accounting Principles Board Opinion No. 16. We performed the following audit procedures with respect to such additional disclosures. We (i) derived the number of shares of common stock issued from the purchase agreement and, (ii) agreed the value of the shares issued, the amount of the cash purchase price adjustment, the allocation of the purchase price to various assets and liabilities, and the useful lives of the resulting intangibles to the Company's underlying records obtained from management. In our opinion, the disclosures discussed above are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

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As discussed in Note 1 to the Notes to Consolidated Financial Statements, in 2002 the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standard No. 142 and recorded a cumulative effect of a change in accounting principle on June 1, 2001. Also as discussed in Note 1 to the Notes to Consolidated Financial Statements, in 2003 the Company changed its method of accounting for costs associated with exit or disposal activities to conform to Statement of Financial Accounting Standards No. 146.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia

July 16, 2003

(Except with respect to the matter discussed under "Legal" in Note 13, as to which the date is July 31, 2003 and except for Note 16, as to which the date is August 11, 2003)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Global Payments Inc.:

We have audited the accompanying consolidated balance sheet of Global Payments Inc. (a Georgia corporation) and subsidiaries (“the Company”) as of May 31, 2001 and 2000 and the related consolidated statements of income, changes in shareholders’ equity and cash flows for each of the three years in the period ended May 31, 2001. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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, the financial statements referred to above present fairly, in all material respects, the financial position of Global Payments Inc. and subsidiaries as of May 31, 2001 and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
July 17, 2001

**EXPLANATORY NOTE REGARDING REPORT OF
INDEPENDENT PUBLIC ACCOUNTANTS**

On May 2, 2002, Global Payments Inc. decided to no longer engage Arthur Andersen LLP as its independent public accountants and engaged Deloitte & Touche LLP to serve as its independent public accountants. More information regarding Global Payments Inc.’s change in independent public accountants is contained in a current report on Form 8-K filed with the SEC on May 7, 2002.

We could not obtain permission of Arthur Andersen LLP to the inclusion in this Annual Report on Form 10-K of their Report of Independent Public Accountants above. Accordingly, the Report of Arthur Andersen LLP above is merely reproduced from Global Payments Inc.’s Annual Report on Form 10-K for the year ended May 31, 2001 (although the consolidated balance sheet as of May 31, 2001 and 2000 and the consolidated statements of income, changes in shareholders’ equity, and cash flows for the years ended May 31, 2000 and 1999 referred to in that report are not included herein) and does not include the manual signature of Arthur Andersen LLP. See “Risk Factors—The conviction of our former independent auditors, Arthur Andersen LLP, on federal obstruction of justice charges may adversely affect Arthur Andersen LLP’s ability to satisfy any claims arising from the provision of auditing services to us and may impede our access to the capital markets.”

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CONSOLIDATED STATEMENTS OF INCOME
GLOBAL PAYMENTS INC.

(In thousands, except per share data)

	Year Ended May 31,		
	2003	2002	2001
Revenues	\$ 516,084	\$ 462,826	\$ 353,195
Operating expenses:			
Cost of service	260,290	252,126	192,389
Sales, general and administrative	161,272	128,289	102,878
Restructuring and other	1,257	10,993	4,882
	<u>422,819</u>	<u>391,408</u>	<u>300,149</u>
Operating income	<u>93,265</u>	<u>71,418</u>	<u>53,046</u>
Other income (expense):			
Interest and other income	1,183	1,600	2,039
Loss on investment	—	—	(5,000)
Interest and other expense	(4,296)	(4,073)	(6,171)
Minority interest in earnings	(5,008)	(4,482)	(5,430)
	<u>(8,121)</u>	<u>(6,955)</u>	<u>(14,562)</u>
Income before income taxes and cumulative effect of a change in accounting principle	85,144	64,463	38,484
Provision for income taxes	31,844	24,624	14,816
Income before cumulative effect of a change in accounting principle	53,300	39,839	23,668
Cumulative effect of a change in accounting principle, net of \$8,614 income tax benefit	—	(15,999)	—
Net income	<u>\$ 53,300</u>	<u>\$ 23,840</u>	<u>\$ 23,668</u>
Basic earnings per share:			
Income before cumulative effect of a change in accounting principle	\$ 1.44	\$ 1.09	\$ 0.83
Cumulative effect of a change in accounting principle	—	(0.44)	—
Net income	<u>\$ 1.44</u>	<u>\$ 0.65</u>	<u>\$ 0.83</u>
Diluted earnings per share (See Note 1):			
Income before cumulative effect of a change in accounting principle	\$ 1.41	\$ 1.05	\$ 0.82
Cumulative effect of a change in accounting principle	—	(0.42)	—
Net income	<u>\$ 1.41</u>	<u>\$ 0.63</u>	<u>\$ 0.82</u>

See Notes to Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.

(In thousands, except share data)

	May 31, 2003	May 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 38,010	\$ 19,194
Accounts receivable, net of allowance for doubtful accounts of \$733 and \$963 in 2003 and 2002, respectively	44,929	43,576
Claims receivable, net of allowance for losses of \$3,193 and \$3,233, in 2003 and 2002, respectively	608	739
Merchant processing receivable, net	34,170	—
Income tax receivable	—	3,756
Inventory	1,348	2,611
Deferred income taxes	5,096	6,289
Prepaid expenses and other current assets	4,042	3,292
Total current assets	128,203	79,457
Property and equipment, net	51,785	53,643
Goodwill, net	161,216	151,712
Other intangible assets, net	137,898	141,308
Other	5,132	5,298
Total assets	\$ 484,234	\$ 431,418
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ —	\$ 22,000
Merchant processing payable, net	—	9,244
Obligations under capital leases	1,456	2,599
Accounts payable and accrued liabilities	58,781	63,162
Income taxes payable	2,624	—
Total current liabilities	62,861	97,005
Obligations under capital leases, net of current portion	3,251	4,711
Deferred income taxes	19,344	1,788
Other long-term liabilities	9,111	6,385
Total liabilities	94,567	109,889
Commitments and contingencies (See Note 13)		
Minority interest in equity of subsidiaries	23,241	25,241
Shareholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized and none issued	—	—
Common stock, no par value; 200,000,000 shares authorized and 37,132,054 and 36,787,255 shares issued and outstanding at May 31, 2003 and 2002, respectively	—	—
Paid-in capital	286,786	280,000
Retained earnings	67,582	20,200
Deferred compensation	(965)	(1,438)
Accumulated other comprehensive income	13,023	(2,474)
Total shareholders' equity	366,426	296,288
Total liabilities and shareholders' equity	\$ 484,234	\$ 431,418

See Notes to Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.**

(In thousands)

	Year Ended May 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	\$ 53,300	\$ 23,840	\$ 23,668
Adjustments to reconcile net income to net cash provided by operating activities:			
Effect of cumulative effect of a change in accounting principle, pre-tax	—	24,613	—
Restructuring and other charges	—	4,199	2,197
Loss on investment	—	—	5,000
Depreciation and amortization	20,516	18,432	10,782
Amortization of acquired intangibles and goodwill	11,545	11,139	10,974
Deferred income taxes	10,968	(6,620)	(3,694)
Disposition of fixed assets	413	—	—
Minority interest in earnings	5,008	4,482	5,430
Provision for operating losses and bad debts	12,149	7,515	6,586
Other	7,668	(290)	(345)
Changes in operating assets and liabilities, net of the effects of acquisitions:			
Accounts receivable, net	(1,337)	(4,422)	(6,202)
Merchant processing, net	(89,348)	69,064	7,562
Inventory	1,263	605	728
Prepaid expenses and other assets	(584)	(947)	1,505
Accounts payable and accrued liabilities	(2,382)	8,858	14,423
Income taxes, net	6,380	—	—
Net cash provided by operating activities	35,559	160,468	78,614
Cash flows from investing activities:			
Capital expenditures	(17,926)	(22,390)	(13,601)
Other long term assets	—	(5,000)	—
Business acquisitions, net of acquired cash	(1,153)	(60,154)	(23,350)
Proceeds from divested business	—	—	3,502
Net cash used in investing activities	(19,079)	(87,544)	(33,449)
Cash flows from financing activities:			
Net repayments to NDC	—	—	(106,197)
Net (payments on) proceeds from line of credit	(22,000)	(51,000)	73,000
Net borrowings on line of credit restricted for merchant funding	33,900	—	—
Principal payments under capital lease arrangements and other long-term debt	(2,603)	(3,279)	(3,144)
Stock issued under employees stock plans	5,965	6,734	302
Dividends paid	(5,918)	(5,857)	(1,459)
Distributions to minority interests	(7,008)	(6,431)	(4,330)
Net cash provided by (used in) financing activities	2,336	(59,833)	(41,828)
Increase in cash and cash equivalents	18,816	13,091	3,337
Cash and cash equivalents, beginning of year	19,194	6,103	2,766
Cash and cash equivalents, end of year	\$ 38,010	\$ 19,194	\$ 6,103

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
GLOBAL PAYMENTS INC.

(In thousands, except per share data)

	Number of Shares	NDC Equity Investment	Paid-in Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at May 31, 2000	—	\$ 120,160	\$ —	\$ —	\$ —	\$ (365)	\$ 119,795
Comprehensive income							
Net income		19,992		3,676			23,668
Foreign currency translation adjustment						(716)	(716)
Total comprehensive income							22,952
Net transactions with NDC		(3,647)					(3,647)
Net distributions to NDC		(2,728)					(2,728)
Distribution of common stock	26,687	(133,777)	137,198		(3,421)		—
Stock issued under employee stock plans	25		1,465				1,465
Stock issued for acquisition	9,765		133,580				133,580
Dividends paid (\$0.04 per share)				(1,459)			(1,459)
Amortization of deferred compensation					1,064		1,064
Balance at May 31, 2001	36,477	—	272,243	2,217	(2,357)	(1,081)	271,022
Comprehensive income							
Net income				23,840			23,840
Foreign currency translation adjustment						(1,393)	(1,393)
Total comprehensive income							22,447
Stock issued under employee stock plans	310		6,883		(192)		6,691
Tax benefit from exercise of stock options			2,274				2,274
Final adjustment to spin-off dividend			(1,400)				(1,400)
Dividends paid (\$0.16 per share)				(5,857)			(5,857)
Amortization of deferred compensation					1,111		1,111
Balance at May 31, 2002	36,787	—	280,000	20,200	(1,438)	(2,474)	296,288
Comprehensive income							
Net income				53,300			53,300
Foreign currency translation adjustment						15,957	15,957
Minimum pension liability adjustment						(460)	(460)
Total comprehensive income							68,797
Stock issued under employee stock plans	345		5,777		(813)		4,964
Tax benefit from exercise of stock options			1,009				1,009
Dividends paid (\$0.16 per share)				(5,918)			(5,918)
Amortization of deferred compensation					1,286		1,286
Balance at May 31, 2003	37,132	\$ —	\$ 286,786	\$ 67,582	\$ (965)	\$ 13,023	\$ 366,426

See Notes to Consolidated Financial Statements.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business, Consolidation and Presentation—Global Payments Inc. (“Global Payments” or the “Company”) is an integrated provider of high volume electronic transaction processing and value-added end-to-end information services and systems to merchants, multinational corporations, financial institutions, and government agencies. These services are marketed to customers within the merchant services and the funds transfer businesses through various sales channels.

In December 1999, National Data Corporation, now known as NDCHealth Corporation (“NDC”), announced its intent to spin-off the NDC eCommerce business segment into a separate publicly traded company with its own management and Board of Directors (the “Distribution”). This Distribution occurred on January 31, 2001 (the “Distribution Date”) and was accomplished by forming Global Payments on September 1, 2000, transferring the stock of the companies which comprised the NDC eCommerce business segment to the Company and then distributing all of the shares of common stock of Global Payments to NDC’s stockholders. NDC stockholders received 0.8 share of Global Payments for each NDC share held as of the Distribution Date. After the Distribution, Global Payments and NDC became two separate public companies.

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

Prior to the Distribution Date, the financial statements included the accounts of the subsidiaries of NDC that comprised its eCommerce business segment. Through the Distribution Date of January 31, 2001, these amounts were derived from NDC’s historical financial statements. As further described in Note 3, certain corporate and interest expenses had been allocated to the Company that were not previously allocated to NDC’s eCommerce business segment. These allocations were based on an estimate of the proportion of corporate expenses related to the Company, utilizing such factors as revenues, number of employees, number of transactions processed and other applicable factors. In the opinion of management, these allocations have been made on a reasonable basis. The costs of these services charged to the Company may not reflect the actual costs the Company would have incurred for similar services as a stand-alone company.

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

Revenue—Card information and transaction processing services revenue are primarily based on a percentage of transaction value or on a specified amount per transaction, and is recognized as such services are performed. Revenue for processing services provided directly to merchants is recorded net of interchange fees charged by credit card associations, which are not controlled by the Company.

Check guarantee services include the process of electronically verifying the check being presented to the Company’s merchant customer, through an extensive database. The Company generally guarantees the face value of the verified and guaranteed check to the merchant customer. If a verified and guaranteed check is dishonored, the Company reimburses the merchant for the check’s guaranteed value, and pursues collection from the delinquent checkwriter. The Company has the right to collect the full amount of the check from the checkwriter but has historically recovered approximately 50% to 55% of the guaranteed, dishonored checks. The Company

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

establishes a claims receivable from the delinquent checkwriter for the full amount of the guaranteed check and a valuation allowance for this activity based on historical and projected loss experience. See *Reserve for Operating Losses* below.

Revenue for the check guarantee offering is primarily derived from a percentage of the face value of each guaranteed check. The Company recognizes revenue upon satisfaction of its guarantee obligation to the merchant customer. The check guarantee offering also earns revenue based on fees collected from delinquent checkwriters which is recognized when collected, as collectibility is not reasonably assured until that point.

Check verification services are similar to the services provided in the check guarantee offering, except the Company does not guarantee the verified checks. Revenue for this offering is primarily derived from fees collected from delinquent checkwriters and is recognized when collected, as collectibility is not reasonably assured until that point. This offering also earns revenue based on a fixed amount each merchant pays for each check that is verified. This revenue is recognized when the transaction is processed, since the Company has no further obligations associated with the transaction.

Terminal management products and services consist of electronic transaction processing terminal sales and rentals, terminal set-up, telephone training and technical support. Revenue associated with the terminal sale, set-up and telephone training is considered a single earnings process and is recognized when the set-up and telephone training is completed, and the merchant customer can begin processing transactions. Terminal rental revenues are recognized when the service is provided. Revenue associated with technical support is considered an independent earnings process and is recognized based on either a maintenance agreement, which is recognized on a straight-line basis over the maintenance contract term, or based on time and materials when the support is completed.

Cash and cash equivalents—Cash and cash equivalents include cash on hand and all liquid investments with an initial maturity of three months or less when purchased.

Inventory—Inventory, which includes computer hardware and peripheral equipment, and electronic point of sale terminals, is stated at the lower of cost or market. Cost is determined by using the average cost method.

Merchant processing receivable/payable—The merchant processing receivable/payable results from timing differences in the Company's settlement process with merchants and card sales processed. These timing differences are primarily due to the fluctuations in volume and timing of credit and debit card sales volume funded to merchants and the settlement received from the card associations and debit networks.

Reserve for operating losses—The Company processes credit card transactions for direct merchants. The Company's merchant customers have the liability for any charges properly reversed by the cardholder. In the event, however, that the Company is not able to collect such amount from the merchants, due to merchant fraud, insolvency, bankruptcy or any other reason, the Company may be liable for any such reversed charges. The Company requires cash deposits, guarantees, letters of credit and other types of collateral by certain merchants to minimize any such contingent liability. The Company also utilizes a number of systems and procedures to manage merchant risk.

The Company recognizes revenue based on a percentage of the gross amount charged and has a potential liability for the full amount of the charge. The Company establishes valuation allowances for operational losses based primarily on historical experience and other relevant factors. Economic downturns or increases in merchant fraud may result in significant increases in credit related issues. As of May 31, 2003 and 2002, \$5.4 million and \$2.1 million, respectively, has been reserved for losses associated with operating merchant card

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

processing. The expense associated with the valuation allowance is included in cost of service in the accompanying consolidated statements of income. Expenses of \$15.6 million, \$9.8 million and \$8.4 million were recorded for fiscal 2003, 2002 and 2001, respectively, for these losses.

The Company also has a check guarantee business. Similar to the credit card business, the Company charges its merchants a percentage of the gross amount of the check and guarantees payment of the check to the merchant in the event the check is not honored by the checkwriter's bank. The Company has the right to collect the full amount of the check from the checkwriter but has not historically recovered 100% of the guaranteed checks. The Company establishes a valuation allowance for this activity based on historical and projected loss experiences. As of May 31, 2003 and 2002, the Company had a check guarantee reserve of \$3.2 million. Expenses of \$10.4 million, \$12.4 million and \$9.9 million were recorded for fiscal 2003, 2002 and 2001, respectively, for these losses and is included in cost of service in the accompanying 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 estimates used in calculating the valuation allowance.

Property and equipment—Property and equipment, including equipment under capital leases, are stated at cost. Depreciation and amortization are calculated using the straight-line method. Equipment is depreciated over 2 to 5 year lives. Leasehold improvements and property acquired under capital leases are amortized over the shorter of the useful life of the asset or the term of the lease. The costs of purchased and internally developed software used to provide services to customers or internal administrative services are capitalized and amortized on a straight-line basis over their estimated useful lives, not to exceed 5 years. Maintenance and repairs are charged to operations as incurred.

Goodwill and Other Intangibles Assets—On July 20, 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. SFAS No. 142 eliminates the amortization of goodwill and certain other intangible assets and requires that goodwill be evaluated for impairment at least annually by applying a fair value-based test. Global Payments adopted SFAS No. 142 in the first quarter of fiscal 2002. In accordance with this new standard, the Company discontinued the amortization of goodwill and certain intangible assets that were determined to have an indefinite life.

Global Payments completed the testing for impairment of goodwill as of June 1, 2002 using the present value of expected future cash flows. The Company determined that the fair value of the reporting units exceeds the carrying amount of the net assets, including goodwill of the respective reporting units. Therefore, no impairment charge to goodwill is required. No other changes in amortization periods were required for other intangible assets. See Note 6 in the Notes to Consolidated Financial Statements for additional information.

Other intangible assets primarily represent customer lists and merchant contracts associated with acquisitions. Customer lists and merchant contracts are amortized using the straight-line method over their estimated useful lives of 10 to 30 years. The useful lives for customer lists/merchant contracts are determined based primarily on information concerning start/stop dates and yearly attrition.

The Company had one indefinite life intangible asset, a trademark with a carrying value at June 1, 2001 of \$24.6 million. The trademark was acquired on April 1, 1996 with the purchase of 92.5% ownership interest in MasterCard International's Merchant Automated Point-of-Sale Program, or MAPP. The value of the trademark related to the use of the MAPP name and logo. In connection with the spin-off from NDC, the Company launched a significant rebranding effort under the Global Payments Inc. name and logo. In addition, effective June 1, 2001, the Company purchased MasterCard's remaining minority interest, ending all existing marketing alliances with MasterCard under the MAPP brand and conducted a study related to the future use of the trademark.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

In fiscal 2002, the Company obtained an appraisal from an independent valuation firm of the fair value of the trademark as of June 1, 2001, the implementation date of SFAS No. 142. Based on the lack of continuing use of the MAPP trademark as of June 1, 2001, the fair value of the trademark was determined to be zero. In accordance with SFAS No. 142, the \$24.6 million (\$16.0 million, net of tax) was written off as of June 1, 2001 and was recorded as a cumulative effect of a change in accounting principle.

Impairment of long-lived assets—The Company regularly evaluates whether events and circumstances have occurred that indicate the carrying amount of property and equipment and other intangible assets may warrant revision or may not be recoverable. When factors indicate that these long-lived assets should be evaluated for possible impairment, the Company assesses the recoverability by determining whether the carrying value of such long-lived assets will be recovered through the future undiscounted cash flows expected from use of the asset and its eventual disposition. In management's opinion, the long-lived assets, including property and equipment and other intangible assets are appropriately valued at May 31, 2003 and May 31, 2002.

Investments—The Company held a \$5 million investment in eCharge Corporation, a private company that offers Internet users secure and convenient ways to make purchases over the Internet. During the fourth quarter ending May 31, 2001, the Company completed an evaluation of this investment as it had experienced difficulty securing additional funding. As a result, management determined the carrying value of the investment was not recoverable and recognized a loss on investment of \$5.0 million in fiscal 2001.

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 (see Note 9).

Fair value of financial instruments—Management considers that the carrying amounts of financial instruments, including cash and cash equivalents, receivables, line of credit, accounts payable and accrued liabilities approximate fair value.

Derivative Instruments and Hedging Activities—Global Payments has adopted Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") and Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). SFAS No. 133 requires that a company recognize derivatives as assets or liabilities on its balance sheet, and also requires that the gain or loss related to the effective portion of derivatives designated as cash flow hedges be recorded as a component of other comprehensive income. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The Company has not used any derivative instruments and the adoption of these statements was not significant.

Foreign currency translation—The Company has foreign subsidiaries operating in Canada and the United Kingdom, whose functional currency is their local currency. Gains and losses on transactions denominated in currencies other than the functional currencies are included in determining net income for the period in which exchange rates change. The assets and liabilities of subsidiaries operating in foreign currencies are translated at the year-end rate of exchange, and income statement items are translated at the average rates prevailing during the year. The resulting translation adjustment is recorded as a component of shareholders' equity. Translation gains and losses on intercompany balances of a long-term investment nature are also recorded as a component of shareholders' equity. The effects of foreign currency gains and losses arising from these translations of assets and liabilities are included as a component of other comprehensive income.

Segment disclosure—The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No. 131"). The Company's chief operating decision making group currently operates one reportable segment—electronic transaction processing—therefore the majority of the disclosures required by SFAS No. 131 do not apply to the Company. The Company's measure of segment profit is operating income. The Company's results of operations and its financial

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

condition are not significantly reliant upon any single customer. Revenues from external customers from the Company's service offerings are as follows:

	2003	2002	2001
	(in thousands)		
Merchant services	\$ 503,827	\$ 449,144	\$ 334,979
Funds transfer	12,257	13,682	18,216
	<u>\$ 516,084</u>	<u>\$ 462,826</u>	<u>\$ 353,195</u>

The Company's operations are provided in the United States, Canada, and Europe. The following is a breakdown of revenues by geographic region:

	2003	2002	2001
	(in thousands)		
United States	\$ 374,061	\$ 340,230	\$ 328,054
Canada	140,854	120,815	23,183
Europe	1,169	1,781	1,958
	<u>\$ 516,084</u>	<u>\$ 462,826</u>	<u>\$ 353,195</u>

Earnings per share—Basic earnings per share is computed by dividing reported earnings available to common shareholders by weighted average shares outstanding during the period. Earnings available to common shareholders are the same as reported net income for all periods presented. For periods prior to the Distribution Date, weighted average shares outstanding is computed by applying the distribution ratio of 0.8 of a share of the Company for each NDC share held to the historical NDC weighted average shares outstanding for the same periods presented.

Diluted earnings per share is computed by dividing reported earnings available to common shareholders by weighted average shares outstanding during the period and the impact of securities that, if exercised, would have a dilutive effect on earnings per share. All options with an exercise price less than the average market share price for the period generally are assumed to have a dilutive effect on earning per share. The dilutive effect of stock options was 0.9 million shares, 1.4 million shares and 0.3 million shares in fiscal 2003, 2002, and 2001, respectively. The diluted share base for the year ended May 31, 2003 excludes incremental shares of 0.7 million related to employee stock options. These shares were excluded due to their anti-dilutive effect as a result of their option exercise prices being greater than the average market price of the common shares. No shares had an anti-dilutive effect in fiscal 2002 and 2001. No additional securities were outstanding that could potentially dilute basic earnings per share that were not included in the computation of diluted earnings per share.

The following table sets forth the computation of basic and diluted earnings per share for the years ended May 31, 2003, 2002 and 2001:

	2003			2002			2001		
	Income	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per share
	(in thousands, except per share data)								
Basic EPS:									
Income before cumulative effect of a change in accounting principle	\$ 53,300	36,957	\$ 1.44	\$ 39,839	36,589	\$ 1.09	\$ 23,668	28,616	\$ 0.83
Cumulative effect of a change in accounting principle	—	36,957	—	(15,999)	36,589	(0.44)	—	28,616	—
Net income available to common shareholders	<u>\$ 53,300</u>	<u>36,957</u>	<u>\$ 1.44</u>	<u>\$ 23,840</u>	<u>36,589</u>	<u>\$ 0.65</u>	<u>\$ 23,668</u>	<u>28,616</u>	<u>\$ 0.83</u>
Diluted EPS:									
Income before cumulative effect of a change in accounting principle	\$ 53,300	37,824	\$ 1.41	\$ 39,839	38,009	\$ 1.05	\$ 23,668	28,916	\$ 0.82
Cumulative effect of a change in accounting principle	—	37,824	—	(15,999)	38,009	(0.42)	—	28,916	—
Net income available to common shareholders	<u>\$ 53,300</u>	<u>37,824</u>	<u>\$ 1.41</u>	<u>\$ 23,840</u>	<u>38,009</u>	<u>\$ 0.63</u>	<u>\$ 23,668</u>	<u>28,916</u>	<u>\$ 0.82</u>

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

Effective March 1, 2003, Global Payments adopted Statements of Financial Accounting Standard No. 148, “*Accounting for Stock-Based Compensation—Transition and Disclosure*” (“SFAS No. 148”). SFAS No. 148 addresses alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of Statements of Financial Accounting Standard No. 123, “*Accounting for Stock-Based Compensation*” (“SFAS No. 123”) to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

At May 31, 2003, the Company has three stock-based compensation plans, which are described more fully in Note 10. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, “*Accounting for Stock Issued to Employees*”; and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation.

	2003	2002	2001
	(In thousands, except per share data)		
Net income:			
As reported	\$ 53,300	\$ 23,840	\$ 23,668
Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(3,480)	(2,987)	(2,973)
Pro forma net income	\$ 49,820	\$ 20,853	\$ 20,695
Basic earnings per share			
As reported	\$ 1.44	\$ 0.65	\$ 0.83
Pro forma	\$ 1.36	\$ 0.57	\$ 0.72
Diluted earnings per share:			
As reported	\$ 1.41	\$ 0.63	\$ 0.82
Pro forma	\$ 1.33	\$ 0.55	\$ 0.72

Impact of new accounting pronouncements—In June 2002, the Financial Accounting Standards Board issued Statement No. 146, “*Accounting for Costs Associated with Exit or Disposal Activities*” (“SFAS No. 146”). The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, “*Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*” (“Issue No. 94-3”). SFAS No. 146 replaces Issue No. 94-3. The Company adopted SFAS No. 146 effective for applicable activities initiated after December 31, 2002. See Note 11 in the Notes to Consolidated Financial Statements for additional information.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, “*Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other*” (“FIN No. 45”). FIN No. 45 requires footnote disclosure of the guarantees or indemnification agreements a company issues. With certain exceptions, these agreements will also require a company to prospectively recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of the Interpretation are effective for financial statements of the interim or annual periods ending after December 15,

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

2002. The adoption of the recognition and measurement provisions of FIN No. 45 did not have a material impact on the Company's consolidated financial position, results of operations, or cash flows for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN No. 45 are included above, relative to the Company's check guarantee services revenue recognition and reserve for operating losses.

NOTE 2—BUSINESS ACQUISITIONS

During fiscal 2003, the Company did not acquire any material businesses. In fiscal years 2002 and 2001, the Company acquired the following businesses and assets:

Business	Date Acquired	Percentage Ownership
2002		
MasterCard International Corporation 7.5% Minority Interest in Global Payment Systems LLC, a subsidiary of the Company	June 1, 2001	100%
National Bank of Canada ("National Bank")—Merchant Acquiring Business	October 1, 2001	100%
2001		
Brennes-Jones Group Merchant Portfolio	November 21, 2000	100%
Canadian Imperial Bank of Commerce ("CIBC") Merchant Acquiring Business	March 20, 2001	100%
Comerica Bank—Imperial Bank Merchant Portfolio	May 31, 2001	51%

These acquisitions have been recorded using the purchase method of accounting, and accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair value as of the date of acquisition. The operating results are included in the Company's consolidated statements of income from the date of the acquisition.

In August 2001, Global Payments purchased the 7.5% minority interest owned by MasterCard International Corporation in Global Payment Systems LLC. The transaction was effective as of June 1, 2001, with a purchase price of \$15.0 million.

On October 1, 2001, the Company acquired National Bank of Canada's merchant acquiring business and formed a ten-year alliance for marketing merchant payment-related products and services to National Bank of Canada's customers. The purchase price was \$45.9 million (U.S.), at the then current Canadian exchange rate. This acquisition was completed to compliment the Company's existing Canadian customer portfolio and broaden the Company's presence in Canada.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in fiscal 2002 at the date of the acquisitions.

	National Bank Merchant Acquiring Business	MasterCard Minority Interest Buyout
	(in thousands)	
Property and equipment, net	\$ 128	\$ —
Customer list	18,473	—
Goodwill	28,934	3,338
Total assets acquired	47,535	3,338
Current liabilities	(1,587)	—
Purchased minority interest	—	11,662
Net assets acquired	\$ 45,948	\$ 15,000

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

The amount assigned to the customer list for the National Bank merchant acquiring business is being amortized over 17 years. Of the amount assigned to goodwill, 100% is expected to be deductible for tax purposes.

On March 20, 2001, the Company acquired substantially all the net assets of the merchant acquiring business of Canadian Imperial Bank of Commerce, and formed a ten year marketing alliance with CIBC to offer merchant payment-related products and services to CIBC's customers. In exchange for the net assets acquired, the Company issued CIBC approximately 9.8 million unregistered shares of our common stock with a fair value of \$133.6 million and paid CIBC a cash purchase price adjustment of \$10.1 million. The deferred cash purchase price adjustment was a negotiated, formula driven amount based on the financial performance of business from the date of the definitive agreement to the closing.

The net assets of the CIBC merchant acquiring business consisted of accounts receivable of \$60.6 million, property and equipment of \$14.1 million, accounts payable and accrued liabilities of \$7.5 million, and an obligation under a capital lease of \$0.6 million. The difference in total consideration of \$143.7 million and the net tangible assets acquired created an excess of \$77.1 million. The excess was allocated to merchant contracts in the amount of \$44.4 million and goodwill in the amount of \$32.7 million, with an estimated useful life of 17 years and 20 years, respectively.

The aggregate cash price paid for the acquisitions in 2001 of \$23.4 million is detailed as follows (*n thousands*):

	2001
Fair value of assets acquired	\$ 175,457
Liabilities assumed	(8,445)
Deferred purchase price	(10,082)
Common stock issued (9,764,623 shares)	(133,580)
Cash paid for acquisitions	\$ 23,350

The excess of cost over tangible assets acquired totaled \$117.0 million, with \$52.7 million allocated to goodwill and \$64.3 million to customer lists/merchant contracts. The depreciable and intangible assets are being amortized over periods ranging from 2 to 20 years.

The following unaudited pro forma information for the purchase acquisitions discussed above has been prepared as if the 2002 and 2001 acquisitions had occurred on June 1 of the preceding year. The information is based on historical and estimated results of the separate companies and may not necessarily be indicative of the results that would have been achieved or of results that may occur in the future. The pro forma information includes the expense for amortization of other intangible assets resulting from these transactions and interest expense related to financing costs but does not reflect any synergies or operating cost reductions that may be achieved from the combined operations.

	2002	2001
	(In thousands, except per share data)	
Revenue	\$ 473,242	\$ 473,218
Income before cumulative effect of a change in accounting principle	39,236	29,361
Cumulative effect of a change in accounting principle, net of tax	(15,999)	—
Net income	\$ 23,237	\$ 29,361
Diluted earnings per share before cumulative effect of a change in accounting principle	\$ 1.03	\$ 0.76
Diluted earnings per share after cumulative effect of a change in accounting principle	\$ 0.61	\$ 0.76

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

NOTE 3—TRANSACTIONS WITH NDC

In conjunction with the Distribution, the Company and NDC entered into various agreements that address the allocation of assets and liabilities between them and that define their relationship after the Distribution, including the Distribution Agreement, the Tax Sharing and Indemnification Agreement, the Employee Benefits Agreement, the Lease Agreement for Office Headquarters, the Intercompany Systems/Network Services Agreement, the Batch Processing Agreement and the Transition Support Agreement. In fiscal 2003, 2002 and 2001, the Company paid NDC \$7.8 million, \$8.5 million and \$2.4 million, respectively, for transitional services. At May 31, 2003 and 2002, there was \$4.8 million and \$2.6 million respectively outstanding to be paid. Payments made in connection with these transitional services are based on terms and conditions arrived at between the Company and NDC bargained at arms length.

The Company was charged with incremental corporate costs through the Distribution Date in the amount of \$4.7 million in fiscal 2001. These allocations were based on an estimate of the proportion of corporate expenses related to the Company, utilizing such factors as revenues, number of employees, number of transactions processed and other applicable factors.

The Company was also charged corporate interest expense through January 31, 2001 based on the corporate debt allocations of NDC to the Company at the Distribution Date. The Company utilized a rollback approach to allocate the portion of the NDC consolidated group's debt and interest expense for all historical periods presented. This treatment records the debt allocation percentage for all historical periods presented. The allocated portion of the consolidated group's debt was presented as due to NDC. Interest expense recorded by the Company related to this debt was \$3.1 million in fiscal 2001 and is included in interest and other expense. NDC did not charge any incremental interest expense to the Company after the Distribution Date.

NOTE 4—PROPERTY AND EQUIPMENT

As of May 31, 2003 and May 31, 2002, property and equipment consisted of the following:

	2003	2002
	(In thousands)	
Property under capital leases	\$ 14,989	\$ 15,880
Equipment	55,180	52,652
Software	31,694	29,129
Leasehold improvements	3,303	3,451
Furniture and fixtures	5,916	5,625
Work in progress	10,056	10,647
	121,138	117,384
Less: accumulated depreciation and amortization	69,353	63,741
	\$ 51,785	\$ 53,643

Depreciation and amortization expense was \$20.5 million, \$18.4 million and \$10.8 million for fiscal years 2003, 2002 and 2001, respectively.

NOTE 5—SOFTWARE COSTS

The following table sets forth information regarding the Company's costs associated with software development for fiscal 2003, 2002 and 2001. These amounts exclude other expenditures for product improvements, customer requested enhancements and maintenance.

	2003	2002	2001
	(In thousands)		
Total costs associated with software development	\$ 4,881	\$ 5,790	\$ 6,437
Less: capitalization of internally developed software	806	1,156	1,891
Net research and development expense	\$ 4,075	\$ 4,634	\$ 4,546

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

The Company capitalizes costs related to the development of computer software developed or obtained for internal use in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Costs incurred in the application development phase are capitalized and amortized over the useful life, not to exceed five years.

Total unamortized capitalized software costs (purchased and internally developed) were approximately \$17.4 million, \$13.4 million and \$8.1 million as of May 31, 2003, May 31, 2002 and May 31, 2001, respectively. Total software amortization expense was \$4.7 million, \$3.4 million and \$2.9 million in fiscal 2003, 2002 and 2001, respectively.

NOTE 6—GOODWILL AND INTANGIBLE ASSETS

As of May 31, 2003 and May 31, 2002, goodwill and intangible assets consisted of the following:

	2003	2002
Goodwill	\$ 161,216	\$ 151,712
Customer lists/merchant contracts	219,260	210,064
	<u>380,476</u>	<u>361,776</u>
Less: accumulated amortization	81,362	68,756
	<u>\$ 299,114</u>	<u>\$ 293,020</u>

Amortization expense was \$11.5 million, \$11.1 million and \$11.0 million for fiscal years 2003, 2002 and 2001, respectively.

The estimated amortization expense for the next five fiscal years is as follows (in thousands):

2004	\$ 11,519
2005	\$ 11,436
2006	\$ 10,728
2007	\$ 8,634
2008	\$ 8,054

The following table discloses the changes in the carrying amount of goodwill for the period ended May 31, 2003 and 2002:

	2003	2002
	(in thousands)	
Balance at beginning of year	\$ 151,712	\$ 118,791
Goodwill acquired during the year	—	32,272
Adjustments to goodwill for prior year acquisitions	799	649
Effect of foreign currency translation	8,705	—
Balance at end of year	<u>\$ 161,216</u>	<u>\$ 151,712</u>

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

The Company discontinued the amortization of goodwill and indefinite-lived intangible assets upon the adoption of SFAS No. 142 on June 1, 2001. The following table indicates the impact on net income and earnings per share if the Company had implemented SFAS No. 142 on June 1, 2000:

	2003	2002	2001
(in thousands, except per share data)			
Net income:			
Reported net income	\$ 53,300	\$ 23,840	\$ 23,668
Add back: Goodwill amortization, net of tax	—	—	2,524
Add back: Trademark amortization, net of tax	—	—	435
Adjusted net income	53,300	23,840	26,627
Add back: Cumulative effect of change in accounting principle, net of tax	—	15,999	—
Adjusted income before cumulative effect of change in accounting principle	\$ 53,300	\$ 39,839	\$ 26,627
Basic earnings per share:			
Reported	\$ 1.44	\$ 0.65	\$ 0.83
Adjusted	\$ 1.44	\$ 0.65	\$ 0.93
Diluted earnings per share:			
Reported	\$ 1.41	\$ 0.63	\$ 0.82
Adjusted	\$ 1.41	\$ 0.63	\$ 0.92
Basic per share income before cumulative effect of change in accounting principle			
Reported	\$ 1.44	\$ 1.09	\$ 0.83
Adjusted	\$ 1.44	\$ 1.09	\$ 0.93
Diluted per share income before cumulative effect of change in accounting principle			
Reported	\$ 1.41	\$ 1.05	\$ 0.82
Adjusted	\$ 1.41	\$ 1.05	\$ 0.92

NOTE 7—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of May 31, 2003 and May 31, 2002, accounts payable and accrued liabilities consisted of the following:

	2003	2002
(In thousands)		
Trade accounts payable	\$ 15,810	\$ 12,133
Compensation and benefits	9,725	9,027
Restructuring	3,173	7,304
Third party processing expenses	6,859	8,142
Transitional services	3,693	8,504
ISO commissions	5,249	4,473
Assessment expenses	4,304	3,244
Other	9,968	10,335
	\$ 58,781	\$ 63,162

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

NOTE 8—RETIREMENT BENEFITS

Prior to the Distribution, the Company participated in the NDC noncontributory defined benefit pension plan (the “NDC Plan”) covering substantially all of its United States employees who have met the eligibility provisions of the NDC Plan as of May 31, 1998. During fiscal 1998, NDC made an evaluation of its current retirement plan offerings and decided to provide its employees with a greater emphasis on its deferred compensation 401(k) plan by substantially increasing the employer match of participants’ contributions. At the same time, NDC closed the defined benefit pension plan to new participants beginning June 1, 1998. Benefits are based on years of service and the employee’s compensation during the highest five consecutive years of earnings of the last ten years of service. Plan provisions and funding meet the requirements of the Employee Retirement Income Security Act of 1974, as amended. Effective on the Distribution Date, the Company established the Global Payments defined benefit pension plan (the “Global Payments Plan”) and NDC transferred to this plan a proportionate share of assets allocable to the accrued benefits for the Company’s participants under the NDC Plan. Expenses for fiscal 2003, 2002 and 2001 were actuarially determined.

The following table provides a reconciliation of the changes in the benefit obligations and fair value of assets over the two-year period ending May 31, 2003 and a statement of funded status at May 31 for each year:

Changes in benefit obligations

	2003	2002
	(in thousands)	
Balance at beginning of year	\$ 7,259	\$6,612
Service cost	—	—
Interest cost	572	495
Benefits paid	(137)	(23)
Actuarial (gain) or loss	2,499	175
Balance at end of year	\$10,193	\$7,259

Changes in plan assets

	2003	2002
	(in thousands)	
Balance at beginning of year	\$5,104	\$5,031
Actual return on plan assets	277	96
Employer contributions	—	—
Benefits paid	(137)	(23)
Balance at end of year	\$5,244	\$5,104

Reconciliation of funded status

	2003	2002
	(in thousands)	
Funded status	\$(4,949)	\$(2,155)
Unrecognized net loss	4,271	1,884
Unrecognized prior service cost	28	33
Net amount recognized	\$ (650)	\$ (238)

Amounts recognized in Consolidated Balance Sheets

	2003	2002
Accrued benefit liability	\$(1,412)	\$(238)
Intangible asset	27	—
Accumulated other comprehensive income (pre-tax)	735	—
Net amount recognized	\$ (650)	\$(238)

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

Net pension expense (income) included the following components for the fiscal years ending May 31:

	2003	2002	2001
	(in thousands)		
Service cost-benefit earned during the period	\$ —	\$ —	\$ —
Interest cost on projected benefit obligation	572	495	474
Expected return on plan assets	(407)	(502)	(618)
Net amortization and deferral	6	(20)	(30)
Recognized actuarial loss	240	67	—
Net pension expense (income)	\$ 411	\$ 40	\$(174)

Significant weighted average assumptions used in determining net pension expense and related obligations were as follows:

	2003	2002	2001
Discount rate for year end benefit obligations	6.00%	7.50%	7.50%
Rate of increase in compensation levels	4.33%	4.33%	4.33%
Expected long-term rate of return on assets	8.00%	10.00%	10.00%

Prior to the Distribution, the Company participated in the NDC deferred compensation 401(k) plan. Expenses of \$1.0 million were allocated to the Company in proportion to total payroll for fiscal 2001 (through January 31, 2001). Effective February 1, 2001, the Company established the Global Payments Inc. 401(k) Plan. The plan provides tax deferred amounts for each participant consisting of employee elective contributions and matching Company contributions. In addition to the expense allocation mentioned above, the Company contributed \$1.3 million, \$1.2 million and \$0.3 million to the Global Payments Inc. 401(k) Plan in fiscal 2003, 2002 and 2001, respectively.

NOTE 9—INCOME TAXES

Prior to the Distribution Date, the Company had been included in the consolidated federal income tax return of NDC. Tax provisions were settled through the Intercompany account and NDC made income tax payments on behalf of the Company. See Note 14 in the Notes to Consolidated Financial Statements for additional information. The Company's provision for income taxes in the accompanying consolidated statements of income reflects federal and state income taxes calculated on the Company's separate income.

The provision for income taxes includes:

	2003	2002	2001
	(in thousands)		
Current tax expense:			
Federal	\$ 19,635	\$ 20,398	\$17,200
State	1,240	1,495	1,310
	20,875	21,893	18,510
Deferred tax expense (benefit):			
Federal	10,103	2,516	(3,402)
State	866	215	(292)
	10,969	2,731	(3,694)
Total	\$ 31,844	\$ 24,624	\$14,816

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

In addition in fiscal 2002, \$8.6 million was recorded as a tax benefit as a result of the cumulative effect of the change in accounting principle. See Note 1 in the Notes to Consolidated Financial Statements for additional information. \$9.4 million of the amount recorded was a deferred tax benefit, while \$0.8 million was a current tax expense.

The Company's effective tax rates differ from federal statutory rates as follows:

	2003	2002	2001
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	1.6	1.7	1.7
Foreign income taxes	0.9	1.3	1.0
Non-deductible amortization and write-off of intangible assets	0.1	0.2	2.3
Tax credits	(0.2)	(0.4)	(0.8)
Other	0.0	0.4	(0.7)
Effective tax rate	37.4%	38.2%	38.5%

Deferred income taxes as of May 31, 2003 and May 31, 2002 reflect the impact of temporary differences between the amounts of assets and liabilities for financial accounting and income tax purposes. As of May 31, 2003 and May 31, 2002, principal components of deferred tax items were as follows:

	2003	2002
	(in thousands)	
Deferred tax assets:		
Accrued expenses and other	\$ 3,732	\$ 1,607
Accrued restructuring and non-cash loss on investment	850	4,159
Bad debt expense	1,518	1,140
Property and equipment	—	621
	6,100	7,527
Deferred tax liabilities:		
Foreign currency translation	8,056	—
Acquired intangibles	7,582	2,457
Prepaid expenses	1,004	569
Property and equipment	3,706	—
	20,348	3,026
Net deferred tax asset (liability)	(14,248)	4,501
Less: Current net deferred tax asset (liability)	5,096	6,289
Net non-current deferred tax liability	\$(19,344)	\$(1,788)

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. The Company has not established valuation allowances for these tax assets.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

NOTE 10—SHAREHOLDERS' EQUITY

Stock Options—NDC had certain Stock Option Plans (the “Plan”) under which incentive stock options and non-qualified stock options have been granted to officers, key employees and directors of NDC. In connection with the separation of the Company from NDC, stock options under the Plan held by employees of the Company that were not exercised prior to the date of the Distribution were replaced with options of Global Payments. In accordance with the provisions of Financial Accounting Standards Board Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, NDC stock options were replaced with Global Payments stock options in amounts and at exercise prices intended to preserve the economic benefit of the NDC stock options at such time. No compensation expense resulted from the replacement of the options. The exercise price of such options ranged from \$3.26 to \$20.90. As a result, options for 2,364,849 shares of Global Payments common stock were issued to replace NDC options under the Global Payments Inc. 2000 Long-Term Incentive Plan, as amended and restated (“The 2000 Plan”). The Company also has a Non-Employee Director Stock Option Plan (“The Director Plan”), which provides for grants of options to directors who are not employees with the Company. A summary of changes in all outstanding options and the related weighted average exercise price per share is as follows:

	The 2000 Plan		The Director Plan	
	Shares	Weighted Avg. Exercise Price Per Share	Shares	Weighted Avg. Exercise Price Per Share
Outstanding at May 31, 2000	—	\$ —	—	\$ —
Granted:				
Replacement options	2,364,849	12.97	—	—
New options	103,301	17.16	23,920	20.90
Cancelled	(8,648)	11.51	—	—
Exercised	(18,499)	7.18	—	—
Outstanding at May 31, 2001	2,441,003	13.20	23,920	20.90
Granted	708,768	26.48	16,808	29.75
Cancelled	(124,999)	13.54	—	—
Exercised	(324,430)	12.83	—	—
Outstanding at May 31, 2002	2,700,342	16.71	40,728	24.55
Granted	686,146	35.84	26,324	28.49
Cancelled	(205,068)	22.26	—	—
Exercised	(254,344)	13.61	—	—
Outstanding at May 31, 2003	2,927,076	\$ 21.08	67,052	\$ 26.10
Shares available for future grant	2,201,728		332,948	

The following table summarizes information about all stock options outstanding at May 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 4.73-\$10.84	390,070	4.84	\$ 10.23	247,275	\$ 9.90
\$11.01-\$17.83	1,148,513	5.36	13.94	617,636	13.65
\$17.86-\$20.90	152,759	5.81	18.55	105,739	18.12
\$23.41-\$26.05	557,524	7.97	25.93	12,080	25.97
\$26.86-\$36.47	745,262	8.97	35.09	—	—
	2,994,128	6.70	\$ 21.19	982,730	\$ 13.34

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**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

The weighted-average grant-date fair value per share of options and replacement options granted in 2003, 2002, and 2001 under the 2000 Plan and the Director Plan are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
2000 Plan	\$16.29	\$12.70	\$(10.09)(1)
Director Plan	12.86	14.39	11.39

(1) The negative fair value under the 2000 Plan in fiscal 2001 resulted from the remeasurement and replacement of outstanding options.

The fair value of each option granted in fiscal 2003, 2002 and 2001 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for the grants during the respective fiscal year:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
2000 Plan			
Risk-free interest rates	3.75%	3.75%	4.80%
Expected volatility	40%	45%	45%
Dividend yields	0.6%	0.7%	0.0%
Expected lives	7 years	7 years	7 years
Director Plan			
Risk-free interest rates	3.75%	3.75%	5.03%
Expected volatility	40%	45%	45%
Dividend yields	0.6%	0.7%	0%
Expected lives	7 years	7 years	7 years

Employee Stock Purchase Plan—The Company has an Employee Stock Purchase Plan under which the sale of 1,200,000 shares of its common stock have been authorized. Employees may designate up to the lesser of \$25,000 or 20% of their annual compensation for the purchase of stock. The price for shares purchased under the plan is the lower of 85% of market value on the first day or the last day of the quarterly purchase period. At May 31, 2003, 141,328 shares have been issued under this plan, with 1,058,672 shares reserved for future issuance.

The weighted-average grant-date fair value per share granted in fiscal 2003, 2002, and 2001 under the Employee Stock Purchase Plan is \$4.96, \$6.90 and \$4.15, respectively.

The fair value of each share granted under the Employee Stock Purchase Plan is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Risk-free interest rates	3.75%	3.75%	4.68%
Expected volatility	40%	45%	45%
Dividend yields	0.6%	0.8%	0%
Expected lives	3 months	3 months	3 months

Restricted Stock—NDC had performance share plans for certain key officers that provided for distribution of common stock at the end of grant specified measurement periods, in the form of restricted stock. As of the Distribution, the Company's officers that were participants in the NDC Plan were granted 256,565 restricted shares of the Company under the restricted stock program to replace the awards previously granted under the NDC Plan. Shares awarded under the restricted stock program are held in escrow and released to the grantee upon the grantee's satisfaction of conditions of the grantee's restricted stock agreement. Awards are recorded as deferred compensation, a reduction of shareholders' equity based on the quoted fair market value of the

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

Company's common stock at the award date. Compensation expense is recognized ratably during the escrow period of the award. The compensation cost that was charged against income for restricted stock was \$1.3 million in 2003 and \$1.1 million in both 2002, and 2001.

NOTE 11—RESTRUCTURING AND OTHER

During the fourth quarter of fiscal 2003, the Company, consistent with its strategy to leverage infrastructure and consolidate operations, committed to a plan to close three locations and consolidate these and other functions into existing locations. The plan requires associated management and staff reductions, contract termination and other facility closure costs. The Company started executing the plan in April 2003 and expects to be completed by the fourth quarter of fiscal 2004. The major components of the restructuring charge associated with these activities are as follows:

	Total expected charge	Charge incurred as of May 31, 2003
(In thousands)		
One-time employee termination benefits	\$ 3,900	\$ 1,657
Contract termination costs	4,000	—
Other associated costs	300	—
Subtotal	<u>\$ 8,200</u>	<u>1,657</u>
Reversal pertaining to the 2001 restructuring activities (see below)		(400)
Total		<u>\$ 1,257</u>

The charge incurred for the year ended May 31, 2003 is reflected in the accompanying Consolidated Statement of Income under the caption "Restructuring and other". As of May 31, 2003, no amounts have been paid for the fiscal 2003 planned restructuring activities, thus \$1.7 million is accrued as of May 31, 2003.

During the fourth quarters of fiscals 2002 and 2001, the Company completed plans for the closing of four and six locations, respectively, including associated management and staff reductions. Total charges for the years ended May 31, 2002 and 2001 are categorized as follows:

	2002			2001		
	Total	Cash	Non- cash	Total	Cash	Non- cash
(In thousands)						
Closed or planned closings of facilities	\$ 1,512	\$ 910	\$ 602	\$ 1,416	\$ 1,075	\$ 341
Severance and related costs	6,715	5,884	831	3,466	1,610	1,856
Other costs	2,766	—	2,766	—	—	—
Totals	<u>\$ 10,993</u>	<u>\$ 6,794</u>	<u>\$ 4,199</u>	<u>\$ 4,882</u>	<u>\$ 2,685</u>	<u>\$ 2,197</u>

The charges relating to facilities represent locations that are either already closed or have management approved plans to be closed within twelve months of incurring the charges. These charges included future minimum lease and operating payments, commencing on the planned exit timing, for all noncancelable leases under remaining terms of the locations identified, net of current and estimated future sublease income. The charges also include facility exit costs and an estimate of the net book value of leasehold improvements and furniture and fixtures that will not be realizable when the facilities are vacated. Normal lease payments, operating costs and depreciation will continue to be charged to operating expenses prior to actually vacating the specific facilities.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

The severance and related costs arise from the Company's actions to reduce personnel in areas of redundant operations and activities. These operations are those that related to the facility consolidation, recent acquisitions and integration of acquisition functions. The charges reflect specifically identified employees whose employment will be terminated and were informed by the time the charges were incurred. The non-cash costs associated with the severance and related costs reflect compensation expense due to the acceleration of the vesting of certain stock options for those employees that were terminated and had options outstanding.

The other costs incurred in the year ended May 31, 2002 relate to the book value of certain current assets that were deemed to be unrecoverable after the purchase of MasterCard's remaining minority interest in Global Payment Systems LLC.

The cash items were accrued at the time the charges were incurred. As of May 31, 2003, \$1.5 million of the cash portion of the restructuring charges from fiscal 2002 remains accrued as a current liability in the accrued liabilities section of the balance sheets as follows:

	2002 Charge			2001 Charge			
	Original Total	Payments to Date	Remaining Liability	Original Total	Payments to Date	Reversals	Remaining Liability
	(In thousands)						
Closed or planned closings of facilities	\$ 910	\$ 642	\$ 268	\$ 1,075	\$ 861	\$ (214)	\$ —
Severance and related costs	5,884	4,636	1,248	1,610	1,424	(186)	—
Totals	\$ 6,794	\$ 5,278	\$ 1,516	\$ 2,685	\$ 2,285	\$ (400)	\$ —

As of May 31, 2002, \$2.2 million of the \$9.5 million of the cash portion of the restructuring charge had been paid in severance and related costs. The remaining restructuring charges of \$0.7 million relating to facilities closing costs and \$6.6 million relating to severance and related costs were accrued as a current liability in the accrued liabilities section of the balance sheet.

NOTE 12—RELATED PARTY TRANSACTIONS

In connection with the fiscal 2001 purchase of CIBC's merchant acquiring business, CIBC holds approximately 26.3% of the Company's outstanding common stock. CIBC provides transition services under an agreement to provide various support services to the merchant acquiring business for a 24-month period commencing on the acquisition date of March 20, 2001. The purpose of the agreement is to facilitate the integration into our existing operations. These services include customer service, credit and debit card processing and settlement functions. CIBC has continued to provide certain transitional services subsequent to the 24-month period under a new agreement currently in final negotiations. For the years ended May 31, 2003, May 31, 2002 and May 31, 2001, the Company incurred expenses of approximately \$6.2 million, \$31.1 million and \$11.2 million, respectively, related to these services.

In addition, the Company has a credit facility from CIBC that provides a line of credit up to \$175 million (Canadian dollars), approximately \$128 million U.S. dollars. See Note 13 in the Notes to Consolidated Financial Statements for additional information.

NOTE 13—COMMITMENTS AND CONTINGENCIES

Leases

The Company conducts a major part of its operations using leased facilities and equipment. Many of these leases have renewal and purchase options and provide that the Company pay the cost of property taxes, insurance and maintenance.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

Rent expense on all operating leases for fiscal 2003, 2002 and 2001 was \$7.8 million, \$7.6 million and \$4.7 million, respectively.

Future minimum lease payments for all noncancelable leases at May 31, 2003 were as follows:

	Capital Leases	Operating Leases
	(In thousands)	
2004	\$ 1,848	\$ 7,643
2005	1,461	5,660
2006	1,461	4,897
2007	772	4,156
2008	—	4,141
Thereafter	—	11,533
Total future minimum lease payments	5,542	\$ 38,030
Less: amount representing interest	835	
Present value of net minimum lease payments	4,707	
Less: current portion	1,456	
Long-term obligations under capital leases at May 31, 2003	\$ 3,251	

Legal

The Company currently processes card transactions for Air Canada, the single largest airline in Canada. Revenue from this relationship represents less than 1% of the Company's consolidated revenue. On April 1, 2003, Air Canada filed for and obtained protection from the court under the Companies' Creditors Arrangement Act, which generally allows a company to reorganize while it continues normal operations with the assistance of a court-appointed Monitor. The court order provides for a general stay that precludes its creditors and others from taking any action against Air Canada. The purpose of the stay is to provide Air Canada with relief designed to stabilize operations and business relationships with customers, vendors, employees and creditors. The court order also provides that Air Canada shall honor all airline tickets in the usual and ordinary course of business.

In the event that Air Canada's restructuring is not successful and it is liquidated, there will likely be limited assets available from which to pay creditor claims. If the restructuring is not successful and any of Air Canada's liability for deferred ticket revenues is unfunded and such charges are properly reversed by VISA and MasterCard cardholders, the Company may be liable for such reversed charges under the chargeback rules of these card associations; for more details, refer to *Reserve for operating losses* under Note 1 in the Notes to Consolidated Financial Statements appearing elsewhere in this report. According to the Eighth Report of the Monitor dated July 31, 2003, deferred ticket revenues for Air Canada as of June 30, 2003, representing advance ticket sales collected, were approximately \$566 million Canadian, or \$420 million U.S., based on then existing exchange rates. In conjunction with the acquisition of the merchant acquiring business of CIBC in March 2001, CIBC agreed to reimburse Global Payments by the amount, if any, that Air Canada's VISA chargebacks and credit losses for any 12 month period exceed twice the level of VISA chargebacks and credit losses experienced during the one-year period ending October 31, 1999. This reimbursement obligation is scheduled to expire on March 20, 2004. Based on an affidavit of an Air Canada officer, 80% of Air Canada customers elect to pay using credit cards and, of those credit card users, 29.3% use VISA cards and 8.4% use MasterCard cards. Therefore, based on the information contained in that affidavit, the information contained in Eighth Report of the Monitor, and taking into consideration CIBC's reimbursement obligations for Air Canada's chargebacks and credit losses, our maximum potential chargeback liability exposure relative to Air Canada as of June 30, 2003 is \$38-\$48 million Canadian, or \$28-\$35 million U.S., based on existing exchange rates.

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

We are continuing to monitor Air Canada's restructuring. Based on information currently available, which primarily consists of publicly available information, management believes a material loss to the Company is unlikely as long as Air Canada continues to honor all airline tickets in the ordinary course of business.

The Company is party to a number of other claims and lawsuits incidental to its business. In the opinion of management, the ultimate outcome of such matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position, liquidity or results of operations.

Line of Credit

The Company has a commitment for a \$125 million revolving line of credit. It was initially used to fund the cash due to NDC to reflect the Company's share of NDC's pre-distribution debt used to establish the Company's initial capitalization. This line of credit is also available to meet working capital needs and financing acquisitions. This line has a variable interest rate based on a market short-term floating rate plus a margin that varies according to the Company's trailing four quarter leverage ratio. The credit agreement contains certain financial and non-financial covenants customary for financings of this nature. The facility has a three-year term, expiring in January 2004. The Company is currently negotiating with the lender to extend the term of this facility. The full amount outstanding is due upon demand, therefore, the Company classifies any amount outstanding as a current liability. There are no amounts outstanding as of May 31, 2003. As of May 31, 2002, the Company had \$22 million outstanding under this facility.

On October 1, 2001, the Company obtained a commitment for a \$25 million revolving credit facility to finance working capital and other general corporate purposes. This line has a variable interest rate based on a market short-term floating rate plus a margin. The credit agreement contains certain financial and non-financial covenants customary for financings of this nature. The facility originally had a sixteen-month term, expiring in January 2003. Prior to its expiration, the Company executed an amendment with the lender to extend the term of this facility for an additional twelve months through January 2004. There were no amounts outstanding at May 31, 2003 and May 31, 2002 on this credit facility.

The Company also has a credit facility from CIBC that provides a line of credit up to \$175 million (Canadian dollars), approximately \$128 million U.S., with an additional overdraft facility available to cover larger advances during periods of peak usage of credit and debit cards. This line has a variable interest rate based on a market short-term floating rate plus a margin. It contains customary covenants and events of default. This line of credit is secured by a first priority security interest in our accounts receivable from VISA Canada/International, and has been guaranteed by our subsidiaries. This guarantee is subordinate to our primary credit facility. On December 10, 2002, the Company executed a third amendment to this credit facility which increased the line of credit from \$140 million to \$175 million (Canadian dollars), extended the term of the facility for an additional 364 days through December 9, 2003, and provided for the incurrence of interest costs in connection with offering merchants "same day value" for their deposits. Same day value, which has been an accepted industry practice in Canada for more than ten years, is the practice of giving merchants same day value for their sales transactions, even though their deposits are made at a later date. Essentially, the merchant's deposits are backdated to the date of the applicable sales transaction. Under the terms of the credit agreement prior to the execution of the third amendment, CIBC credited the merchants' deposit account for their sales transactions on the day of the transaction and the Company reimbursed CIBC after receipt of the corresponding funding from the card association and debit network. At May 31, 2003, there were \$46.3 million (Canadian dollars), approximately \$33.9 million U.S. outstanding on this credit facility. This amount is included as a component of the net merchant processing receivable on the balance sheet. The amount borrowed is restricted in use to pay merchants and will be received from the card associations and debit network on the following day. There was no amount outstanding under the CIBC credit facility as of May 31, 2002.

BIN/ICA Agreements

In connection with the Company's acquisition of merchant credit card operations of banks, the Company has also entered into depository and processing agreements (the "Agreements") with certain of the banks. These

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

Agreements allow the Company to use the banks' identification numbers ("BIN/ICA") to clear credit card transactions through VISA and MasterCard. Certain agreements contain financial covenants, and the Company was in compliance with all such covenants as of May 31, 2003. In management's opinion, the Company would be able to obtain alternative BIN/ICA agreements without material impact to the Company in the event of the termination of these Agreements.

NOTE 14—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow disclosures and non-cash investing and financing activities for the years ended May 31, 2003, May 31, 2002 and May 31, 2001 are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(In thousands)		
Supplemental cash flow information:			
Income taxes paid, net of refunds	\$ 11,079	\$ 22,966	\$ 7,718
Interest paid	2,877	4,637	6,015
Supplemental non-cash investing and financing activities:			
Capital leases entered into in exchange for property and equipment	—	5,876	—
Common stock issued in consideration for acquisitions	—	—	133,580

Through the Distribution Date, the Company's cash flow had been calculated with and included in the NDC consolidated group's Supplemental Cash Flows. The Company's payments for income taxes have been calculated on the Company's separate income and reflect federal and state income tax payment allocations as if the Company had been operating on a stand-alone basis (Note 9). The Company has utilized a "rollback" approach to allocate the portion of the consolidated group's interest payments for the historical period presented (Note 3).

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS—(Continued)**

NOTE 15—QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly results for the two years ended May 31, 2003 are as follows:

	Quarter Ended			
	August 31	November 30	February 28	May 31
	(In thousands, except per share data)			
2003				
Revenue	\$ 127,728	\$ 129,461	\$ 124,573	\$ 134,322
Operating income	25,317	23,755	21,783	22,410
Net income	14,613	13,582	12,097	13,008
Basic earnings per share	0.40	0.37	0.33	0.34
Diluted earnings per share	0.39	0.36	0.32	0.34
2002				
Revenue	\$ 110,955	\$ 115,617	\$ 115,283	\$ 120,971
Operating income	22,687	20,782	17,995	9,954
Income before cumulative effect of a change in accounting principle	12,874	11,643	10,275	5,047
Cumulative effect of a change in accounting principle net of tax benefit of \$8,614	(15,999)	—	—	—
Net income (loss)	(3,125)(1)	11,643	10,275	5,047
Basic earnings per share	(0.09)(1)	0.32	0.28	0.14
Diluted earnings per share	(0.09)(1)	0.31	0.27	0.13

- (1) The net income and earnings per share data for fiscal 2002 in the above table does not agree to amounts reported in the Company's unaudited interim financial statements included in the Company's quarterly report on Form 10-Q for the quarter ended August 31, 2001, due to the cumulative effect of a change in accounting principle of \$16.0 million recorded effective June 1, 2001.

NOTE 16—SUBSEQUENT EVENT

On August 11, 2003, Global Payments Inc. entered into a definitive agreement to acquire Latin America Money Services, LLC, or LAMS, a holding company which directly owns a majority of the outstanding equity interest in DolEx Dollar Express, Inc., or DolEx, and indirectly owns a majority of the outstanding equity interest in DolEx Envios S.A. de C.V., a Mexican subsidiary of DolEx. The transaction, which is structured as a merger between a newly created subsidiary of Global Payments and LAMS, is subject to regulatory approvals; however it is expected to close before the end of calendar year 2003. The purchase price is \$190 million, plus a contingent payment of up to \$10 million based on the calendar year 2003 financial results of DolEx. Global Payments expects the purchase price to be financed under its existing line of credit, cash on hand, and notes payable.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements included in Global Payments Inc.'s annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated July 17, 2001. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule below is the responsibility of Global Payments' management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
July 17, 2001

**EXPLANATORY NOTE REGARDING REPORT OF
INDEPENDENT PUBLIC ACCOUNTANTS**

On May 2, 2002, Global Payments Inc. decided to no longer engage Arthur Andersen LLP as its independent public accountants and engaged Deloitte & Touche LLP to serve as its independent public accountants for the year ending May 31, 2002. More information regarding Global Payments Inc.'s change in independent public accountants is contained in a current report on Form 8-K filed with the SEC on May 7, 2002.

We could not obtain permission of Arthur Andersen LLP to the inclusion in this Annual Report on Form 10-K of the Report of Independent Public Accountants above. Accordingly, the Report of Arthur Andersen LLP above covering the financial statement schedule listed in the Index at Item 16 for the fiscal year ended May 31, 2001 is merely reproduced from Global Payments Inc.'s Annual Report on Form 10-K for the year ended May 31, 2001 and does not include the manual signature of Arthur Andersen LLP. See "Risk Factors—The conviction of our former independent auditors, Arthur Andersen LLP, on federal obstruction of justice charges may adversely affect Arthur Andersen LLP's ability to satisfy any claims arising from the provision of auditing services to us and may impede our access to the capital markets."

GLOBAL PAYMENTS INC.
CONSOLIDATED SCHEDULE II
Valuation & Qualifying Accounts

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	1 Charged to Costs and Expenses	2 Acquired Balances	Uncollectible Accounts Write-Off	Balance at End of Period
(In thousands)					
Trade Receivable Allowances					
May 31, 2001	\$ 1,231	\$ 1,970	\$ —	\$ 2,003	\$ 1,198
May 31, 2002	1,198	1,255	—	1,490	963
May 31, 2003	963	1,065	—	1,295	733
Allowance for operational losses—Merchant card processing (1)					
May 31, 2001	451	8,398	—	7,306	1,543
May 31, 2002	1,543	9,756	1,659	10,856	2,102
May 31, 2003	2,102	15,607	—	12,358	5,351
Allowance for claim losses—Check guarantee processing					
May 31, 2001	3,679	9,949	—	9,183	4,445
May 31, 2002	4,445	12,354	—	13,566	3,233
May 31, 2003	3,233	10,378	—	10,418	3,193

(1) Included in Net Merchant processing receivable/payable

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

None

PART III

ITEM 10—DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

We incorporate by reference in this Item 10 information about our directors contained under the heading “Proposal 1—Election of Directors; Nominees—Certain Information Concerning Nominee and Directors” 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 “Section 16(a) Beneficial Ownership Reporting Compliance” from our proxy statement to be delivered in connection with our 2003 Annual Meeting of Shareholders to be held on October 22, 2003.

Set forth below is information relating to our executive officers. There is no family relationship between any of our executive officers or directors and there are no arrangements or understandings between any of our executive officers or directors and any other person pursuant to which any of them was elected an officer or director, other than arrangements or understandings with our directors or officers acting solely in their capacities as such. Our executive officers serve at the pleasure of our board of directors.

Name	Age	Current Position(s)	Position with Global Payments and Other Principal Business Affiliations
Paul R. Garcia	51	Chairman of the Board of Directors, President and Chief Executive Officer	Chairman of the Board of Directors (since October 2002); President and Chief Executive Officer of Global Payments (since September 2000); Chief Executive Officer of NDC eCommerce (July 1999–January 2001); President and Chief Executive Officer of Productivity Point International (March 1997–September 1998); Group President of First Data Card Services (1995–1997); Chief Executive Officer of National Bancard Corporation (NaBANCO) (1989–1995).
James G. Kelly	41	Chief Financial Officer	Chief Financial Officer of Global Payments (since September 2000); Chief Financial Officer of NDC eCommerce (April 2000–January 2001); Managing Director with Alvarez & Marsal (March 1996–April 2000); Director with Alvarez & Marsal (1992–1996) and Associate with Alvarez & Marsal (1990–1992); and Manager with Ernst & Young’s mergers and acquisitions/audit groups (1989–1990).
Barry W. Lawson	56	Chief Information Officer	Chief Information Officer of Global Payments (since September 2000); Chief Information Officer of NDC eCommerce (November 1999–January 2001); CEO Systems and Network Consultants (April 1996–October 1999); and Chief Operating Officer of National Bancard Corporation (NaBANCO) (August 1993–March 1996).
Jeffery C. McWey	47	Chief Marketing Officer	Chief Marketing Officer of Global Payments (since October 2001); Former Non-Executive Chairman of Damian Services Corporation, Chicago (2000–2002); Member of the Board of Directors of The Outsourcing Institute, New York (since 2000); Senior Vice President & Group Executive of ChoicePoint Inc. (Formerly part of Equifax) (January 1999–March 2000); President of Elrick & Lavidge, Inc. (Sold from Equifax) (August 1995–June 1998); Senior Vice President & General Manager of The Marketing Services Group of Equifax Inc. (January 1994–August 1995); Vice President of The Dun & Bradstreet Corporation (March 1980–January 1994).

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ITEM 11—EXECUTIVE COMPENSATION

We incorporate by reference in this Item 11 the information relating to executive compensation contained under the heading “Proposal 1—Election of Directors; Nominees—Other Information about the Board and its Committees” and “Compensation and Other Benefits” from our proxy statement to be delivered in connection with our 2003 Annual Meeting of Shareholders to be held on October 22, 2003. The information contained in the proxy statement under the sections entitled “Shareholder Return Analysis” and “Report of the Compensation Committee” is specifically not incorporated by reference in this Item 11.

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 “Election of Directors—Common Stock Ownership of Management” and “—Common Stock Ownership by Certain Other Persons” from our proxy statement to be delivered in connection with our 2003 Annual Meeting of Shareholders to be held on October 22, 2003.

The Company has three compensation plans under which equity securities of the Company are authorized for issuance. The Global Payments Inc. 2000 Long-Term Incentive Plan and the Non-Employee Director Stock Option Plan have been approved by security holders. For more information on these plans, see Note 10 to Notes to Consolidated Financial Statements.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted- average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by security holders:	2,994,128	\$ 21.19	2,534,676
Equity compensation plans not approved by security holders:	—	—	—
Total	2,994,128	\$ 21.19	2,534,676

ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We incorporate by reference in this Item 13 the information regarding certain relationships and related transactions between us and some of our affiliates contained under the heading “Certain Transactions” from our proxy statement to be delivered in connection with our 2003 Annual Meeting of Shareholders to be held on October 22, 2003.

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ITEM 14—CONTROLS AND PROCEDURES

We concluded an evaluation of the effectiveness of our disclosure controls and procedures on June 20, 2003. Our evaluation tested controls and other procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Based on our evaluation, as of June 20, 2003, information required to be disclosed in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer as appropriate, in a manner that allows timely decisions regarding required disclosure.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to June 20, 2003.

ITEM 15—PRINCIPAL ACCOUNTANT FEES AND SERVICES

We incorporate by reference in this Item 15 the information regarding principal accountant fees and services contained under the headings "Audit Fees", "Financial Information Systems Design and Implementation Fees" and "All Other Fees" from our proxy statement to be delivered in connection with our 2003 Annual Meeting of Shareholders to be held on October 22, 2003.

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PART IV

ITEM 16—EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. **Consolidated Financial Statements**

Our consolidated financial statements listed below are set forth in “Item 8—Financial Statements and Supplementary Data” of this report:

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	Page Number
Independent Auditors’ Report	24
Report of Independent Public Accountants	26
Explanatory Note Regarding Report of Independent Public Accountants	26
Consolidated Statements of Income for the years ended May 31, 2003, 2002 and 2001	27
Consolidated Balance Sheets as of May 31, 2003 and 2002	28
Consolidated Statements of Cash Flows for the years ended May 31, 2003, 2002 and 2001	29
Consolidated Statements of Changes in Shareholders’ Equity for the years ended May 31, 2003, 2002, and 2001	30
Notes to Consolidated Financial Statements	31
(a) 2. Financial Statement Schedules	
Report of Independent Public Accountants As to Schedule	53
Explanatory Note Regarding Report of Independent Public Accountants	53
Schedule II, Valuation and Qualifying Accounts	54
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.	
(a) 3. Exhibits	
The following exhibits either (i) are filed with this report or (ii) have previously been filed with the SEC and are incorporated in this Item 16 by reference to those prior filings.	
2.1	Distribution Agreement, Plan of Reorganization and Distribution dated January 31, 2001 by and between National Data Corporation and Global Payments Inc., filed as Exhibit 2.1 to the Registrant’s Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
3.1	Amended and Restated Articles of Incorporation of Global Payments Inc., filed as Exhibit 3.1 to the Registrant’s Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
3.2	Amended and Restated By-laws of Global Payments Inc., filed as Exhibit 3.2 to the Registrant’s Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
3.3	Third Amended and Restated By-laws of Global Payments Inc., filed as Exhibit 3 to the Registrant’s to the Registrant’s Current Report on Form 10-Q dated February 28, 2003, File No. 001-16111, and incorporated herein by reference.
4.1	Shareholder Protection Rights Agreement dated January 26, 2001 between Global Payments Inc. and SunTrust Bank, filed as Exhibit 99.1 to the Registrant’s Current Report on Form 8-K dated February 1, 2001, File No. 001-16111, and incorporated herein by reference.
4.2	Form of certificate representing Global Payments Inc. common stock as amended, filed as Exhibit 4.4 to the Registrant’s Registration Statement on Form 10 dated December 28, 2000, File No. 001-16111, and incorporated herein by reference.

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- 10.1 Tax Sharing and Indemnification Agreement between National Data Corporation and Global Payments Inc. dated as of January 31, 2001, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.2 Employee Benefits Agreement between National Data Corporation and Global Payments Inc. dated as of January 31, 2001, filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.3 Transition Support Agreement between National Data Corporation and Global Payments Inc. dated as of January 31, 2001, filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.4 Intercompany Systems/Network Services Agreement between National Data Corporation and Global Payments Inc. dated as of January 31, 2001, filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.5 Batch Processing Agreement between National Data Corporation and Global Payments Inc. dated as of January 31, 2001, filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.6 Lease Agreement for Office Headquarters between National Data Corporation and Global Payments Inc. dated as of January 31, 2001, filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.7 Sublease Agreement dated as of January 31, 2001 between Global Payment Systems LLC and National Data Corporation, filed as Exhibit 10.7 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.8 Sublease Agreement dated as of January 31, 2001 between National Data Corporation and National Data Payment Systems, Inc., filed as Exhibit 10.8 to the Registrant's Current Report on Form 8-K dated January 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.9*** Amended and Restated 2000 Long-Term Incentive Plan.
- 10.10* 2000 Non-Employee Stock Purchase Plan, filed as Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 dated January 16, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.11* Amended or Restated 2000 Employee Stock Purchase Plan filed as Exhibit 99.3 to the Registrant's Registration Statement on Form S-8 dated January 16, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.12* Form of Global Payments Inc. Supplemental Executive Retirement Plan as amended, filed as Exhibit 10.12 to the Registrant's Registration Statement on Form 10 dated December 28, 2000, File No. 001-16111, and incorporated herein by reference.
- 10.13* Employment Agreement for Paul R. Garcia, as amended, filed as Exhibit 10.13 to the Registrant's Registration Statement on Form 10 dated December 28, 2000, File No. 001-16111, and incorporated herein by reference.
- 10.14* Employment Agreement for James G. Kelly, as amended, filed as Exhibit 10.15 to the Registrant's Registration Statement on Form 10 dated December 28, 2000, File No. 001-16111, and incorporated herein by reference.
- 10.15* Employment Agreement for Barry W. Lawson, as amended, filed as Exhibit 10.16 to the Registrant's Registration Statement on Form 10 dated December 28, 2000, File No. 001-16111, and incorporated herein by reference.
- 10.16 Asset Purchase Agreement with Canadian Imperial Bank of Commerce, as amended, filed as Exhibit 10.19 to the Registrant's Registration Statement on Form 10 dated December 28, 2000, File No. 001-16111, and incorporated herein by reference.

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- 10.17 Investor Rights Agreement with Canadian Imperial Bank of Commerce as amended, filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated March 20, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.18 Form of Marketing Alliance Agreement with Canadian Imperial Bank of Commerce as amended, filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated March 20, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.19 Transition Agreement with Canadian Imperial Bank of Commerce, filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated March 20, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.20 Stock Purchase Agreement with Canadian Imperial Bank of Commerce filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated March 20, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.21 Credit Agreement with Canadian Imperial Bank of Commerce filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K dated March 20, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.22 Credit Agreement dated as of January 31, 2001, among Global Payments Inc., Bank One, N.A., as Administrative Agent, Wachovia Bank, N.A., as Documentation Agent, and the Lenders named therein, filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.23 First Amendment dated March 20, 2001 to the Credit Agreement dated as of January 31, 2001 among Global Payments Inc., Bank One, N.A., as Administrative Agent, Wachovia Bank, N.A., as Documentation Agent, and the Lenders named therein, filed as Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.24 Second Amendment dated May 14, 2001, among Global Payments Inc., Bank One, N.A., as Administrative Agent, Wachovia Bank, N.A., as Documentation Agent, and the Lenders named therein, filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.25 Third Amendment dated July 25, 2001, among Global Payments Inc., Bank One, N.A., as Administrative Agent, Wachovia Bank, N.A., as Documentation Agent, and the Lenders named therein, filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2001, File No. 001-16111, and incorporated herein by reference.
- 10.26 First Amendment dated May 31, 2001 to the Credit Agreement among Global Payments Direct, Inc., Canadian Imperial Bank of Commerce and the Lenders named therein, filed as Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2002, File No. 001-16111, and incorporated herein by reference.
- 10.27 Credit agreement dated as of September 26, 2001, between Global Payments Inc. and SunTrust Bank, filed as Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2002, File No. 001-16111, and incorporated herein by reference.
- 10.28* Employment Agreement for Jeffery C. McWey dated October 26, 2001.
- 10.29 Second Amendment dated as of March 20, 2002 to the Credit Agreement among Global Payments Direct, Inc., Canadian Imperial Bank of Commerce, and the Lenders named therein, filed as Exhibit 10 to the Registrant's Current Report on Form 10-Q dated February 28, 2002, File No. 001-16111, and incorporated herein by reference.

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10.30	Fourth amendment dated as of April 30, 2002, by and among Global Payments Inc., Bank One, N.A., as Administrative Agent, SunTrust Bank as Documentation Agent, Wachovia Bank, N.A. as Syndication Agent and the Lenders named therein, filed as Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2002, File No. 001-16111, and incorporated herein by reference.
10.31	First amendment dated as of April 30, 2002, by and among Global Payments Inc. and SunTrust Bank, filed as Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2002, File No. 001-16111, and incorporated herein by reference.
10.32	Third Amendment dated as of December 10, 2002 to the Credit Agreement among Global Payments Direct, Inc., Canadian Imperial Bank of Commerce, and the Lenders named therein, filed as Exhibit 10 to the Registrant's Current Report on Form 10-Q dated November 30, 2002, File No. 001-16111, and incorporated herein by reference.
10.33	Second amendment dated as of January 7, 2003, by and among Global Payments Inc. and SunTrust Bank, filed as Exhibit 10.1 to the Registrant's Current Report on Form 10-Q dated November 30, 2002 File No. 001-16111, and incorporated herein by reference.
10.34**	Fifth amendment dated as of July 15, 2003, by and among Global Payments Inc., Bank One, N.A., as Administrative Agent, SunTrust Bank as Documentation Agent, Wachovia Bank, N.A. as Syndication Agent and the Lenders named therein.
21 **	List of Subsidiaries
23.1 **	Independent Auditor's Consent
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 **	CEO and CFO Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
99.1 **	Risk Factors

* Compensatory management agreement

** Filed with this report

*** Compensatory management agreement and filed with this report

(b) Exhibits

See Item 16(a)(3) above.

(c) Financial Statement Schedules

See Item 16(a)(2) above.

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GLOBAL PAYMENTS INC.
FORM 10-K
INDEX TO EXHIBITS

<u>Exhibit Numbers</u>	<u>Description</u>
10.9	Amended and Restated 2000 Long-Term Incentive Plan
10.34	Fifth amendment dated as of July 15, 2003, by and among Global Payments Inc., Bank One, N.A., as Administrative Agent, SunTrust Bank as Documentation Agent, Wachovia Bank, N.A. as Syndication Agent and the Lenders named therein
21	List of Subsidiaries
23.1	Independent Auditor's Consent
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	CEO and CFO Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
99.1	Risk Factors

**GLOBAL PAYMENTS INC.
AMENDED AND RESTATED 2000 LONG-TERM INCENTIVE PLAN**

GLOBAL PAYMENTS INC.
AMENDED AND RESTATED 2000 LONG-TERM INCENTIVE PLAN

ARTICLE 1	PURPOSE	1
1.1	General	1
ARTICLE 2	EFFECTIVE DATE	1
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**GLOBAL PAYMENTS INC.
AMENDED AND RESTATED 2000 LONG-TERM INCENTIVE PLAN**

**ARTICLE 1
PURPOSE**

1.1 GENERAL. The purpose of the Global Payments Inc. Amended and Restated 2000 Long-Term 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 and directors 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 and directors 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 and directors.

**ARTICLE 2
EFFECTIVE DATE**

2.1 EFFECTIVE DATE. The Plan shall be effective as of the first date that it shall have been approved by both the Board and the shareholders of the Company.

**ARTICLE 3
DEFINITIONS**

3.1 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 any Option, Stock Appreciation Right, Restricted Stock Award, Performance Award, Dividend Equivalent Award, or Other Stock-Based Award, or any other right or interest relating to Stock or cash, granted to a Participant under the Plan.

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- (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.
- (d) "Board" means the Board of Directors of the Company.
- (e) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- (f) "Committee" means the committee of the Board described in Article 4.
- (g) "Company" means Global Payments Inc., a Georgia corporation.
- (h) "Continuous Status as a Participant" means the absence of any interruption or termination of service as an employee, officer or director of the Company, as applicable, as determined in accordance with Section 13.13.
- (j) "Covered Employee" means a covered employee as defined in Code Section 162(m)(3).
- (j) "Disability" shall mean any illness or other physical or mental condition of a Participant that renders the Participant incapable of performing his customary and usual duties for the Company, or any medically determinable illness or other physical or mental condition resulting from a bodily injury, disease or mental disorder which, in the judgment of the Committee, is permanent and continuous in nature. The Committee may require such medical or other evidence as it deems necessary to judge the nature and permanency of the Participant's condition. Notwithstanding the above, with respect to an Incentive Stock Option, Disability shall mean Permanent and Total Disability as defined in Section 22(e)(3) of the Code.
- (k) "Dividend Equivalent" means a right granted to a Participant under Article 11.
- (l) "Effective Date" has the meaning assigned such term in Section 2.1.
- (m) "Eligible Participant" means an employee, officer or director of the Company or any Affiliate.
- (n) "Exchange" means the Nasdaq National Market, the New York Stock Exchange or any other national securities exchange on which the Stock may from time to time be listed or traded.

(o) "Fair Market Value", on any date, means (i) if the Stock is listed on a securities exchange or is traded over the Nasdaq National Market, the closing sales price on such exchange or over such system 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 or traded over the Nasdaq National Market, the mean between the bid and offered prices as quoted by Nasdaq for such date, provided that if it is determined that the fair market value is not properly reflected by such Nasdaq quotations, Fair Market Value will be determined by such other method as the Committee determines in good faith to be reasonable.

(p) "Grant Date" means the date an Award is made by the Committee.

(q) "Incentive Stock Option" means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(r) "Non-Employee Director" means a director of the Company who is not a common law employee of the Company or any Affiliate.

(s) "Non-Qualified Stock Option" means an Option that is not an Incentive Stock Option.

(t) "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 Non-Qualified Stock Option.

(u) "Other Stock-Based Award" means a right, granted to a Participant under Article 12, that relates to or is valued by reference to Stock or other Awards relating to Stock.

(v) "Parent" means a corporation 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.

(w) "Participant" means a person who, as an employee, officer or director of the Company or any Affiliate, 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 13.6 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.

(x) "Performance Award" means Performance Shares or Performance Units granted pursuant to Article 9.

(y) "Performance Share" means any right granted to a Participant under Article 9 to a unit to be valued by reference to a designated number of Shares to be paid upon achievement of such performance goals as the Committee establishes with regard to such Performance Share.

(z) "Performance Unit" means a right granted to a Participant under Article 9 to a unit valued by reference to a designated amount of cash or property other than Shares to be paid to the Participant upon achievement of such performance goals as the Committee establishes with regard to such Performance Unit.

(aa) "Plan" means the Global Payments Inc. Amended and Restated 2000 Long-Term Incentive Plan, as amended from time to time.

(bb) "Qualified Performance-Based Award" means (i) a Performance Award, Restricted Stock Award or Other Stock-Based Award that is intended to qualify for the Section 162(m) Exemption and is made subject to performance goals based on Qualified Performance Criteria as set forth in Section 13.12(b), 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.

(cc) "Qualified Performance Criteria" means one or more of the performance criteria listed in Section 13.12(b) upon which performance goals for certain Qualified Performance-Based Awards may be established by the Committee.

(dd) "Restricted Stock Award" means Stock granted to a Participant under Article 10 that is subject to certain restrictions and to risk of forfeiture.

(ee) "Retirement" in the case of an employee means termination of employment with the Company or an Affiliate after attaining a total combination of age and years of service of at least 70; provided, however, that a termination of employment prior to age 60 shall not constitute Retirement for purposes of the Plan unless the Participant shall have given 12 months advance written notice to the Company of his or her intent to retire, or the Company shall have expressly waived such prior notice. "Retirement" in the case of a non-employee director of the Company means retirement of the director in accordance with the provisions of the Company's bylaws as in effect from time to time or the failure to be re-elected or re-nominated as a director.

(ff) "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.

(gg) "Shares" means shares of the Company's Stock. If there has been an adjustment or substitution pursuant to Section 14.1, 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 Section 14.1.

(hh) "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 14.

(ii) "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 grant price of the SAR, all as determined pursuant to Article 8.

(jj) "Subsidiary" means any corporation, limited liability company, partnership or other entity 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.

(kk) "1933 Act" means the Securities Act of 1933, as amended from time to time.

(ll) "1934 Act" means the Securities Exchange Act of 1934, as amended from time to time.

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 "non-employee directors" (within the meaning of Rule 16b-3 promulgated under the 1934 Act) and "outside directors" (within the meaning of Code Section 162(m) and the regulations thereunder) 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 are, or who are anticipated to become, either (i) Covered Employees or (ii) persons subject to the short-swing profit rules of Section 16 of the 1934 Act. However, the mere fact that a Committee member shall fail to qualify under either of the foregoing requirements 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. 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 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.

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'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 to assist in the administration of the Plan.

4.3 AUTHORITY OF COMMITTEE. Except as provided below, 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 to which an Award will relate;
- (e) Determine the terms and conditions of any Award granted under the Plan, including but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines;
- (f) Accelerate the vesting, exercisability or lapse of restrictions of any outstanding Award, based in each case on such considerations as the Committee in its sole discretion determines;

(g) Determine whether, to what extent, and under what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(h) Prescribe the form of each Award Certificate, which need not be identical for each Participant;

(i) Decide all other matters that must be determined in connection with an Award;

(j) Establish, adopt or revise any rules, regulations, guidelines or procedures as it may deem necessary or advisable to administer the Plan;

(k) 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;

(l) Amend the Plan or any Award Certificate as provided herein; and

(m) Adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of non-U.S. jurisdictions in which the Company or any Affiliate may operate, in order to assure the viability of the benefits of Awards granted to participants located in such other jurisdictions and to meet the objectives of the Plan.

Notwithstanding the foregoing, grants of Awards hereunder to Non-Employee Directors shall be made only in accordance with the terms, conditions and parameters established from time to time for the compensation of the Company's Non-Employee Directors, and the Committee may not make discretionary grants hereunder to Non-Employee Directors.

Notwithstanding the above, the Board or the Committee may expressly delegate to a special committee consisting of one or more directors who are also officers of the Company some or all of the Committee's authority under subsections (a) through (i) above, except that no delegation of its duties and responsibilities may be made to officers of the Company with respect to Awards to Eligible Participants who are, or who are anticipated to be become, either (i) Covered Employees or (ii) persons subject to the short-swing profit rules of Section 16 of the 1934 Act. The acts of such delegates shall be treated hereunder as acts of the Committee and such delegates shall report to the Committee regarding the delegated duties and responsibilities.

4.4. 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.

ARTICLE 5
SHARES SUBJECT TO THE PLAN

5.1. NUMBER OF SHARES. Subject to adjustment as provided in Section 14.1, the aggregate number of Shares reserved and available for Awards or which may be used to provide a basis of measurement for or to determine the value of an Award (such as with a Stock Appreciation Right or Performance Award) shall be 6,000,000. Not more than 15% of such aggregate number of Shares may be granted as Awards of Restricted Stock, Performance Shares or unrestricted Stock.

5.2. LAPSED AWARDS. To the extent that an Award is canceled, terminates, expires, is forfeited or lapses for any reason, any Shares subject to the Award will again be available for the grant of Awards under the Plan and Shares subject to Awards settled in cash will be available for the grant of Awards under the Plan.

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 Section 14.1), the maximum number of Shares with respect to one or more Awards, including Options and/or SARs, that may be granted during any one calendar year under the Plan to any one Participant shall be 300,000. The maximum fair market value (measured as of the Grant Date) of any Awards other than Options, SARs or Restricted Stock Awards that may be received by any one Participant (less any consideration paid by the Participant for such Award) during any one calendar year under the Plan shall be \$5,000,000.

ARTICLE 6
ELIGIBILITY

6.1. GENERAL. Awards may be granted only to Eligible Participants; except that Incentive Stock Options may not be granted to Eligible Participants who are not employees of the Company or a Parent or Subsidiary as defined in Section 424(e) and (f) of the Code.

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 shall not be less than the Fair Market Value as of the Grant Date.

(b) 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(d). 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. The Committee may waive any exercise or vesting provisions at any time in whole or in part based upon factors as the Committee may determine in its sole discretion so that the Option becomes exercisable or vested at an earlier date. The Committee may permit an arrangement whereby receipt of Stock upon exercise of an Option is delayed until a specified future date.

(c) PAYMENT. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation, cash, Shares, or other property (including "cashless exercise" arrangements), and the methods by which Shares shall be delivered or deemed to be delivered to Participants; provided, however, that if Shares are used to pay the exercise price of an Option, such Shares must have been held by the Participant for at least six months.

(d) EXERCISE TERM. In no event may any Option be exercisable for more than ten years from the Grant Date.

7.2. INCENTIVE STOCK OPTIONS. The terms of any Incentive Stock Options granted under the Plan must comply with the following additional rules:

(a) LAPSE OF OPTION. An Incentive Stock Option shall lapse upon the earliest of the following circumstances; provided, however, that the Committee may, prior to the lapse of the Incentive Stock Option under the circumstances described in subsections (3), (4) and (5) below, provide in writing that the Option will extend until a later date, but if an Option is so extended and is exercised after the dates specified in subsections (3) and (4) below, it will automatically become a Non-Qualified Stock Option:

- (1) The expiration date set forth in the Award Certificate.

(2) The tenth anniversary of the Grant Date.

(3) Three months after termination of the Participant's Continuous Status as a Participant for any reason other than the Participant's Disability or death.

(4) One year after the termination of the Participant's Continuous Status as a Participant by reason of the Participant's Disability.

(5) One year after the termination of the Participant's death if the Participant dies while employed, or during the three-month period described in paragraph (3) or during the one-year period described in paragraph (4) and before the Option otherwise lapses.

If a Participant exercises an Option after termination of employment, the Option may be exercised only with respect to the Shares that were otherwise vested on the Participant's termination of employment, including any shares that vested as of the termination date by reason of acceleration. Upon the Participant's death, any exercisable Options may be exercised by the Participant's beneficiary, determined in accordance with Section 13.6.

(b) INDIVIDUAL DOLLAR LIMITATION. The aggregate Fair Market Value (determined as of the Grant Date) of all Shares with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed \$100,000.00.

(c) TEN PERCENT OWNERS. No Incentive Stock Option shall be granted to any individual who, at the Grant Date, owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary unless the exercise price per share of such Option is at least 110% of the Fair Market Value per Share at the Grant Date and the Option expires no later than five years after the Grant Date.

(d) EXPIRATION OF AUTHORITY TO GRANT INCENTIVE STOCK OPTIONS. No Incentive Stock Option may be granted pursuant to the Plan after the day immediately prior to the tenth anniversary of the Effective Date.

(e) RIGHT TO EXERCISE. During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant or, in the case of the Participant's Disability, by the Participant's guardian or legal representative.

(f) ELIGIBLE GRANTEES. The Committee may not grant an Incentive Stock Option to a person who is not at the Grant Date an employee of the Company or a Parent or Subsidiary.

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 Stock Appreciation Right, the Participant to whom it is granted has the right to receive the excess, if any, of:

(1) The Fair Market Value of one Share on the date of exercise; over

(2) The grant price of the Stock Appreciation Right as determined by the Committee, which shall not be less than the Fair Market Value of one Share on the Grant Date.

(b) OTHER TERMS. All awards of Stock Appreciation Rights shall be evidenced by an Award Certificate. The terms, methods of exercise, methods of settlement, form of consideration payable in settlement, and any other terms and conditions of any Stock Appreciation Right shall be determined by the Committee at the time of the grant of the Award and shall be reflected in the Award Certificate.

ARTICLE 9
PERFORMANCE AWARDS

9.1. GRANT OF PERFORMANCE AWARDS. The Committee is authorized to grant Performance Shares or Performance Units to Participants on such terms and conditions as may be selected by the Committee. The Committee shall have the complete discretion to determine the number of Performance Shares or Performance Units granted to each Participant, subject to Section 5.4, and to designate the provisions of such Performance Awards as provided in Section 4.3.

9.2. PERFORMANCE GOALS. The Committee may establish performance goals for Performance Awards which may be based on any one or more of the Qualified Performance Criteria listed in Section 13.12(b) or any other 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 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, 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.

9.3. RIGHT TO PAYMENT. The grant of a Performance Share to a Participant will entitle the Participant to receive at a specified later time a specified number of Shares, or the equivalent cash value, if the performance goals established by the Committee are achieved and the other terms and conditions thereof are satisfied. The grant of a Performance Unit to a Participant will entitle the Participant to receive at a specified later time a specified dollar value in cash or property other than Shares, variable under conditions specified in the Award, if the performance goals in the Award are achieved and the other terms and conditions thereof are satisfied. The Committee shall set performance goals and other terms or conditions to payment of the Performance Awards in its discretion which, depending on the extent to which they are met, will determine the number and value of the Performance Award that will be paid to the Participant.

9.4. OTHER TERMS. Performance Awards may be payable in cash, Stock, or other property, and have such other terms and conditions as determined by the Committee and reflected in the Award Certificate.

ARTICLE 10 RESTRICTED STOCK AWARDS

10.1. GRANT OF RESTRICTED STOCK. The Committee is authorized to make Awards of Restricted Stock to Participants in such amounts and subject to such terms and conditions as may be selected by the Committee.

10.2. ISSUANCE AND RESTRICTIONS. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, 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, the Participant shall have all of the rights of a shareholder with respect to the Restricted Stock.

10.3. FORFEITURE. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of Continuous Status as a Participant during the applicable restriction period or upon failure to satisfy a performance goal during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited; provided, however, that the Committee may provide in any Award Certificate that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

10.4. CERTIFICATES FOR RESTRICTED STOCK. An Award of Restricted Stock shall be evidenced by an Award Certificate setting forth the terms, conditions, and restrictions applicable to share of Restricted Stock. Shares of Restricted Stock shall be delivered to the Participant at the time of grant 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 11 DIVIDEND EQUIVALENTS

11.1 GRANT OF DIVIDEND EQUIVALENTS. The Committee is authorized to grant Dividend Equivalents to Participants subject to such terms and conditions as may be selected by the Committee. Dividend Equivalents shall entitle the Participant to receive payments equal to dividends with respect to all or a portion of the number of Shares of Stock subject to an Award, as determined by the Committee. The Committee may provide that Dividend Equivalents be paid or distributed when accrued or be deemed to have been reinvested in additional Shares of Stock, or otherwise reinvested.

ARTICLE 12 STOCK OR OTHER STOCK-BASED AWARDS

12.1. 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 Shares awarded purely as a “bonus” and not subject to any restrictions or conditions, 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 13
PROVISIONS APPLICABLE TO AWARDS

13.1. STAND-ALONE, TANDEM, AND SUBSTITUTE AWARDS. Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for, any other Award granted under the Plan. If an Award is granted in substitution for another Award, the Committee may require the surrender of such other Award in consideration of the grant of the new Award. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

13.2. EXCHANGE PROVISIONS. Subject to Section 15.2, the Committee may at any time offer to exchange or buy out any previously granted Award for a payment in cash, Stock, or another Award (subject to Section 14.1), based on the terms and conditions the Committee determines and communicates to the Participant at the time the offer is made, and after taking into account the tax, securities and accounting effects of such an exchange.

13.3. TERM OF AWARD. The term of each Award shall be for the period as determined by the Committee, provided that in no event shall the term of any Option or a Stock Appreciation Right granted in tandem with an Option exceed a period of ten years from its Grant Date (or, if Section 7.2(c) applies, five years from its Grant Date).

13.4. FORM OF PAYMENT FOR AWARDS. Subject to the terms of the Plan and any applicable law or Award Certificate, payments or transfers to be made by the Company or an Affiliate on the grant or exercise of an Award may be made in such form as the Committee determines at or after the Grant Date, including without limitation, cash, Stock, other Awards, or other property, or any combination, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case determined in accordance with rules adopted by, and at the discretion of, the Committee.

13.5. 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 or, except in the case of an Incentive Stock Option, pursuant to a domestic relations order that would satisfy Section 414(p)(1)(A) of the Code if such Section applied to an Award under the Plan; provided, however, that the Committee may (but need not) permit other transfers 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.

13.6 BENEFICIARIES. Notwithstanding Section 13.5, 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, payment shall be made to the Participant's estate. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

13.7. STOCK CERTIFICATES. 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.

13.8 ACCELERATION UPON DEATH OR DISABILITY. Notwithstanding any other provision in the Plan or any Participant's Award Certificate to the contrary, upon the Participant's death or Disability during his Continuous Status as a Participant, all of such Participant's outstanding Options, Stock Appreciation Rights, and other Awards in the nature of rights that may be exercised shall become fully exercisable and all restrictions on his outstanding Awards shall lapse. Any Option or Stock Appreciation Rights Awards shall thereafter continue or lapse in accordance with the other provisions of the Plan and the Award Certificate. To the extent that this provision causes Incentive Stock Options to exceed the dollar limitation set forth in Section 7.2(b), the excess Options shall be deemed to be Non-Qualified Stock Options.

13.9. ACCELERATION FOR ANY OTHER REASON. Regardless of whether an event has occurred as described in Section 13.8 above, the Committee may in its sole discretion at any time determine that all or a portion of a Participant's Options, Stock Appreciation Rights, and other Awards in the nature of rights that may be exercised shall become fully or partially exercisable, and/or that all or a part of the restrictions on all or a portion of the Participant's outstanding Awards shall lapse, 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 13.9.

13.10 EFFECT OF ACCELERATION. If an Award is accelerated under Section 13.9, the Committee may, in its sole discretion, provide (i) that the Award will expire after a designated period of time after such acceleration to the extent not then exercised, (ii) that the Award will be settled in cash rather than Stock, (iii) that the Award will be assumed by another party to a transaction giving rise to the acceleration or otherwise be equitably converted or substituted in connection with such transaction, (iv) that the Award 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 price of the Award, or (v) 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. To the extent that such acceleration causes Incentive Stock Options to exceed the dollar limitation set forth in Section 7.2(b), the excess Options shall be deemed to be Non-Qualified Stock Options.

13.11 RETIREMENT. Notwithstanding any other provision in the Plan or any Participant's Award Certificate to the contrary, upon the Participant's Retirement (as defined in Section 3.1), all of his outstanding Options, Stock Appreciation Rights, and other Awards in the nature of rights that may be exercised shall become fully exercisable and all restrictions on the Participant's outstanding Awards shall lapse. Any Options or Stock Appreciation Rights held by the Participant shall remain exercisable until the earlier of (i) the original expiration date of the Option, or (ii) the fifth anniversary of the Participant's Retirement. To the extent that this provision causes any Incentive Stock Options to fail to meet the requirements of Code Section 422, such Options shall be deemed to be Non-Qualified Stock Options.

13.12. QUALIFIED PERFORMANCE-BASED AWARDS.

(a) The provisions of the Plan are intended to ensure that all Options and Stock Appreciation Rights granted hereunder to any Covered Employee qualify for the Section 162(m) Exemption.

(b) When granting any Performance Award, Restricted Stock or Other Stock-Based Award other than Options or Stock Appreciation Rights, 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 Performance 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: (1) return on equity, (2) return on assets, (3) stock price, (4) total shareholder return (stock price appreciation plus reinvested dividends) relative to a defined comparison group or target over a specific performance period, (5) revenue,

(6) profit contribution, (7) net income, (8) EBIT (earnings before interest and taxes), (9) EBITDA (earnings before interest, depreciation, taxes and amortization), (10) earnings per share, (11) operating income, or (12) margin percentage of revenue. The performance goal may be stated in terms of a dollar amount, a percentage increase, a target percentage, an amount or percent of change over time, or any other objectively determinable measure.

(c) Each Qualified Performance-Based Award (other than an Option or Stock Appreciation Right) 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 Performance Criteria, together with the satisfaction of any other conditions, such as continued employment, as the Committee may determine to be appropriate; provided 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 upon the death, Disability or Retirement of the Participant.

(d) Any payment of a Qualified Performance-Based Award granted with performance goals 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 subsection (c), no Qualified Performance-Based Award 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 Performance 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.

(e) Section 5.4 sets forth the maximum number of Shares or dollar value that may be granted in any one-year period to a Participant.

13.13. TERMINATION OF EMPLOYMENT. Whether military, government or other service or other leave of absence shall constitute a termination of employment shall be determined in each case by the Committee at its discretion, and any determination by the Committee shall be final and conclusive. A Participant's Continuous Status as a Participant shall not be deemed to terminate (i) in the case of any leave of absence authorized in writing by the Company prior to its commencement, (ii) in a circumstance in which a Participant transfers from the Company to an Affiliate, transfers from an Affiliate to the Company, or transfers from one Affiliate to another Affiliate, or (iii) 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. To the extent that this provision causes Incentive Stock Options to extend beyond three months from the date a Participant is deemed to be an employee of the

Company, a Parent or Subsidiary for purposes of Sections 424(e) and 424(f) of the Code, the Options held by such Participant shall be deemed to be Non-Qualified Stock Options.

**ARTICLE 14
CHANGES IN CAPITAL STRUCTURE**

14.1. GENERAL. In the event of a corporate event or transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the authorization limits under Section 5.1 and 5.4 shall be adjusted proportionately, and the Committee may adjust Awards to preserve the benefits or potential benefits of the Awards. Action by the Committee may include: (i) adjustment of the number and kind of shares which 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. In addition, 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 exercisable 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 price of the Award, or (v) 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. 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 subject to each Award shall automatically be adjusted proportionately without any change in the aggregate purchase price therefor.

**ARTICLE 15
AMENDMENT, MODIFICATION AND TERMINATION**

15.1. 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 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 to (i) permit Awards made hereunder to be exempt from liability under Section 16(b) of the 1934 Act, (ii) to comply with the listing or other requirements of an Exchange, or (iii) to satisfy any other tax, securities or other applicable laws, policies or regulations.

15.2. 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 Stock Appreciation Right 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 any Option may not be extended without the prior approval of the shareholders of the Company;

(c) Except as otherwise provided in Article 14, the exercise price of any Option may not be reduced, directly or indirectly, without the prior approval of the shareholders of the Company; 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.

ARTICLE 16 GENERAL PROVISIONS

16.1. NO RIGHTS TO AWARDS; NON-UNIFORM DETERMINATIONS. 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).

16.2. NO SHAREHOLDER RIGHTS. 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.

16.3. 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, 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. If Shares are surrendered to the

Company to satisfy withholding obligations in excess of the minimum withholding obligation, such Shares must have been held by the Participant as fully vested shares for at least six months. With respect to withholding required upon any taxable event under the Plan, the Committee may, at the time the Award is granted or thereafter, require or permit that any such withholding requirement 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.

16.4. NO RIGHT TO CONTINUED SERVICE. 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 director at any time, nor confer upon any Participant any right to continue as an employee, officer or director of the Company or any Affiliate, whether for the duration of a Participant's Award or otherwise.

16.5. 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.

16.6. INDEMNIFICATION. To the extent allowable under applicable law, each member of the Committee shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which such member may be a party or in which he may be involved by reason of any action or failure to act under the Plan and against and from any and all amounts paid by such member in satisfaction of judgment in such action, suit, or proceeding against him provided he gives the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. 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.

16.7. 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.

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

16.9. 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.

16.10. 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.

16.11. 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.

16.12. 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.

16.13. 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.

16.14 ADDITIONAL PROVISIONS. Each Award Certificate may contain such other terms and conditions as the Committee may determine; provided that such other terms and conditions are not inconsistent with the provisions of the Plan.

16.15. 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 issue 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 2000 Long-Term Incentive Plan as adopted by the Board on September 18, 2002, as submitted to the shareholders for approval at the Company's 2002 Annual Meeting.

GLOBAL PAYMENTS INC.

By: /s/ Suellen P. Tornay

Its: Suellen P. Tornay
General Counsel

AMENDMENT NO. 5 TO CREDIT AGREEMENT

THIS AMENDMENT NO. 5 TO CREDIT AGREEMENT (this "**Amendment**"), dated as of July 15, 2003, by and among GLOBAL PAYMENTS INC., a Georgia corporation, as Borrower, the banks and other financial institutions listed on the signature pages hereof, as Lenders, BANK ONE, NA, a national banking association having its principal office in Chicago, Illinois, as Administrative Agent, Swing Line Lender and LC Issuer, SUNTRUST BANK, a Georgia banking corporation, as Documentation Agent, and WACHOVIA BANK, N.A., a national banking association, as Syndication Agent.

WITNESSETH

WHEREAS, Borrower, the Lenders, and the Agents are parties to a certain Credit Agreement dated as of January 31, 2001, as amended by Amendment No. 1 to Credit Agreement dated as of March 20, 2001, by Amendment No. 2 to Credit Agreement dated as of May 14, 2001, by Amendment No. 3 to Credit Agreement dated as of July 26, 2001, and by Amendment No. 4 to Credit Agreement dated as of April 30, 2002 (as so amended, the "Credit Agreement"; capitalized terms used in this Amendment without definition that are defined in the Credit Agreement shall have the meanings in this Amendment as specified for such capitalized terms in the Credit Agreement);

WHEREAS, Borrower and Lenders have agreed to amend the Credit Agreement in certain respects as set forth in this Amendment;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

SECTION 1. Amendments to Credit Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, and effective as of the Effective Date (as hereinafter defined), the Credit Agreement shall be amended as follows:

1.1 Section 1.1 of the Credit Agreement is hereby amended by adding the new defined terms "**Designated Acquisition**" and "**Designated Acquisition Debt**" and accompanying definitions, in appropriate alphabetical order, as follows:

"**Designated Acquisition**" means the acquisition by the Borrower of all of the outstanding limited liability company member interests in Latin America Money Services, LLC, a Delaware limited liability company ("**LAMS**"), for a total consideration comprised of (x) a cash amount (net of all cash on hand of LAMS and its subsidiaries upon consummation of the Designated Acquisition), whether payable at the closing thereof or at a subsequent date (pursuant to any earn-out arrangement or otherwise), plus

(y) a principal amount of Designated Acquisition Debt, which total consideration shall not exceed an amount equal to the sum of (i) \$200,000,000, and (ii) an amount up to \$25,000,000 for additional payments attributable to any additional branches acquired by LAMS or its subsidiaries subsequent to execution of the definitive agreement for the Designated Acquisition and prior to the consummation thereof.

“Designated Acquisition Debt” means Debt of the Borrower incurred as part of the consideration for the Designated Acquisition in an aggregate principal amount not greater than \$125,000,000, payable to the members of LAMS not later than November 30, 2003.

1.2 Section 6.6(b) of the Credit Agreement is hereby amended by deleting clause (iv) thereof in its entirety and substituting in lieu thereof the following clause (iv):

(iv) the total amount of cash consideration paid (excluding cash consideration paid in the NBC Acquisition and the Designated Acquisition), and Debt issued, assumed or otherwise becoming part of Consolidated Total Debt (excluding (x) Debt of NDPS arising pursuant to the Canadian Receivables Credit Facility or the CIBC/NDPS Acquisition Note, and (y) the Designated Acquisition Debt), in such acquisition, together with the aggregate amount of such cash consideration and Debt in respect of all other acquisitions made during the then-current Fiscal Year (or in the case of the Borrower’s 2001 Fiscal Year, the period from the Closing Date through the end of such 2001 Fiscal Year) shall not exceed \$50,000,000 and

1.3 Section 6.8 of the Credit Agreement is hereby amended by deleting clause (1) thereof in its entirety and substituting in lieu thereof the following clause (1):

(1) Liens on (i) the Canadian Receivables securing the Debt permitted pursuant to Section 6.7(g), and (ii) the limited liability company member interests purchased by the Borrower in the Designated Acquisition securing the Designated Acquisition Debt; and

SECTION 2. Additional Subsidiary Guarantors. The Borrower acknowledges and agrees that, not later than 30 days after consummation of the Designated Acquisition, the Borrower shall cause each of LAMS and DolEx Dollar Express, Inc., a Texas corporation, to become an additional Subsidiary Guarantor for all purposes under the Credit Agreement in accordance with the provisions of Section 5.3(f). The foregoing obligations of the Borrower shall not replace or limit any other obligations it may have pursuant to Section 5.3 in the event that any other Domestic Operating Subsidiary is required by the terms of Section 5.3 to become an additional Subsidiary Guarantor or the Applicable Pledge Amount of the Capital Stock of any First Tier Non-U.S. Operating Subsidiary is required by the terms of Section 5.3 to be pledged to the Administrative Agent.

SECTION 3. Conditions to Effectiveness of Amendment. This Amendment shall become effective on the first day when all of the following conditions have been satisfied (the “Effective Date”):

(a) The Administrative Agent shall have received counterparts of this Amendment as executed on behalf of the Borrower and the Required Lenders, together with the Acknowledgment and Agreement of Subsidiary Guarantors as executed on behalf of the Subsidiary Guarantors; and

(b) The Borrower shall have delivered to the Administrative Agent (i) a copy of the definitive agreement for the Designated Acquisition as executed on behalf of the parties thereto, and (ii) a certificate demonstrating compliance with the requirements of Section 6.6(b)(iii), including the supporting calculations with respect thereto.

SECTION 4. Status of Obligations. Borrower hereby confirms and agrees that all Loans and all other Obligations outstanding under the Credit Agreement and the other Loan Documents as of the date hereof were duly and validly created and incurred by Borrower thereunder, that all such outstanding amounts are owed in accordance with the terms of the Credit Agreement and other Loan Documents, and that there are no rights of offset, defense, counterclaim, claim or objection in favor of Borrower arising out of or with respect to any of the Loans or other Obligations of Borrower to the Agents or the Lenders, and any such rights of offset, defense, counterclaim, claims or objections have been and hereby waived and released by Borrower.

SECTION 5. Representations and Warranties of Borrower. Borrower, without limiting the representations and warranties provided in the Credit Agreement, represents and warrants to the Lenders and the Agents as follows:

5.1 The execution, delivery and performance by Borrower of this Amendment are within Borrower's corporate powers, have been duly authorized by all necessary corporate action (including any necessary shareholder action) and do not and will not (a) violate any provision of any law, rule or regulation, any judgment, order or ruling of any court or governmental agency, the certificate of incorporation or by-laws of Borrower, or any indenture, agreement or other instrument to which Borrower is a party or by which Borrower or any of its properties is bound or (b) be in conflict with, result in a breach of, or constitute with notice or lapse of time or both a default under any such indenture, agreement or other instrument.

5.2 This Amendment constitutes the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms.

5.3 After giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

5.4 The representations and warranties of Borrower contained in the Credit Agreement are true and accurate on and as of the date of the Amendment, except for changes expressly permitted under the terms of the Credit Agreement and except to the extent that such representations and warranties relate solely to an earlier date (in which case such representations and warranties were true and accurate as of such earlier date).

5.5 Since February 28, 2003, there have been no events, acts, conditions or occurrences of whatever nature, singly or in the aggregate, which have had, or could reasonably be expected to have, a Material Adverse Effect.

SECTION 6. Survival. Each of the foregoing representations and warranties shall be made at and as of the date of this Amendment and shall be deemed to have been made as of the Effective Date. Each of the foregoing representations and warranties shall constitute a representation and warranty of Borrower under the Credit Agreement, and it shall be an Event of Default if any such representation and warranty shall prove to have been incorrect or false in any material respect at the time when made or deemed to have been made. Each of the foregoing representations and warranties shall survive and not be waived by the execution and delivery of this Amendment or any investigation by the Lenders or the Agents.

SECTION 7. Ratification of Credit Agreement and Loan Documents. Except as expressly amended herein, all terms, covenants and conditions of the Credit Agreement and the other Loan Documents shall remain in full force and effect, and the parties hereto do expressly ratify and confirm the Credit Agreement (as amended herein) and the other Loan Documents. All future references to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

SECTION 8. Indemnity. In consideration of the amendments agreed to by the Lenders pursuant to this Amendment, Borrower hereby indemnifies each Agent, and each Lender, and their respective officers, partners, directors, employees, representatives and agents from, and hold each of them harmless against, any and all costs, losses, liabilities, claims, damages or expenses incurred by any of them (whether or not any of them is designated a party thereto) (an "Indemnitee") arising out of or by reason of any investigation, litigation or other proceeding related to this Amendment, the Credit Agreement or any Loan Documents or any actual or proposed use of the proceeds of any of the Loans, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceeding ; *provided, however*, Borrower shall not be obligated to indemnify any Indemnitee for any of the foregoing arising out of such Indemnitee's gross negligence or willful misconduct.

SECTION 9. No Waiver, Etc. Borrower hereby agrees that nothing herein shall constitute a waiver by the Lenders of any Default or Event of Default, whether known or unknown, which may exist under the Credit Agreement. Borrower hereby further agrees that no action, inaction or agreement by the Lenders, including without limitation, any indulgence, waiver, consent or agreement altering the provisions of the Credit Agreement which may have occurred with respect to the non-performance of any obligation under the terms of the Credit Agreement or any portion thereof, or any other matter relating to the Credit Agreement, shall require or imply any future indulgence, waiver, or agreement by the Lenders.

SECTION 10. Binding Nature. This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns.

SECTION 11. Costs and Expenses. Borrower shall be responsible for the costs and expenses of the Agents in connection with the preparation, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including, without limitation, the fees and out-of-pocket expenses of counsel for the Agents with respect thereto.

SECTION 12. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF GEORGIA.

SECTION 13. Entire Understanding. This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

SECTION 14. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts and may be delivered by telecopier. Each counterpart so executed and delivered shall be deemed an original and all of which taken together shall constitute but one and the same instrument.

(Signatures Appear on Following Page)

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered in Atlanta, Georgia, by their duly authorized officers as of the day and year first above written, with such Amendment to take effect on the Effective Date as provided herein.

GLOBAL PAYMENTS INC.

By: /s/ James G. Kelly

James G. Kelly
Chief Financial Officer

BANK ONE, NA,
as Administrative Agent, Lender, LC Issuer
and Swing Line Lender

By: /s/ Sabir A. Hashmy

Name: Sabir A. Hashmy
Title: Director

SUNTRUST BANK,
as Documentation Agent and Lender

By: /s/ Brian K. Peters

Name: Brian K. Peters
Title: Managing Director

**WACHOVIA BANK, NATIONAL
ASSOCIATION,** as Syndication Agent and Lender

By: /s/ Steven L. Hipsman

Name: Steven L. Hipsman
Title: Director

COMERICA BANK

as Lender

By: _____

Name:

Title:

ACKNOWLEDGMENT AND AGREEMENT OF SUBSIDIARY GUARANTORS

Reference is hereby made to the within and foregoing Amendment No. 5 to Credit Agreement, dated as of July 15, 2003, by and among GLOBAL PAYMENTS INC., a Georgia corporation ("Borrower"), BANK ONE, NA, a national banking association, as Administrative Agent, Swing Line Lender and LC Issuer, SUNTRUST BANK, a Georgia banking corporation, as Documentation Agent, and WACHOVIA BANK, N.A., a national banking association, as Syndication Agent ("Amendment No. 5"); capitalized terms used herein that are defined in Amendment No. 5 or in the "Credit Agreement" as defined in Amendment No. 5 being used herein with the respective meanings assigned to such capitalized terms in Amendment No. 5 or the Credit Agreement, as the case may be). Each of the undersigned, which is a Subsidiary Guarantor under the terms of the Subsidiary Guarantee as provided in the Credit Agreement, hereby acknowledges and agrees that (i) the undersigned has consented to the foregoing Amendment No. 5, (ii) the Subsidiary Guarantee and the other Loan Documents to which each of the undersigned is a party shall remain in full force and effect on and after the date hereof, and (iii) each of the undersigned hereby reaffirms and restates its obligations and liabilities under the Subsidiary Guarantee and the other Loan Documents to which each of the undersigned is a party after giving effect to Amendment No. 5.

This Acknowledgment and Agreement of Subsidiary Guarantors made and delivered as of July 15, 2003.

GUARANTORS:

GLOBAL PAYMENTS DIRECT, INC.
(formerly National Data Payments Systems, Inc.),
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Chief Financial Officer

NDC CHECK SERVICES, INC.,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

CHECKRITE RECOVERY SERVICES, INC.,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

MERCHANT SERVICES U.S.A., INC.,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

NDPS HOLDINGS, INC.,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

GLOBAL PAYMENT HOLDING COMPANY,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

NDC HOLDINGS (UK) LTD.,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

GPS HOLDING LIMITED PARTNERSHIP,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

GP FINANCE, INC.,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

GLOBAL PAYMENT SYSTEMS LLC,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

MODULAR DATA, INC.,
as a Subsidiary Guarantor

By: /s/ James G. Kelly

James G. Kelly
Treasurer

LIST OF SUBSIDIARIES

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

<u>Name</u>	<u>Jurisdiction of Organization</u>
Global Payments Direct, Inc.	New York
Global Payments Check Services, Inc.	Illinois
Global Payments Comerica Alliance, LLC	Delaware (1)
Global Payment Systems LLC	Georgia
Global Payment Holding Company	Delaware
GPS Holding Limited Partnership	Georgia
Global Payment Systems of Canada, Ltd.	Canada
Global Payments Canada Inc.	Ontario, Canada
Merchant Services U.S.A., Inc.	North Carolina
NDC Holdings (UK) Ltd.	Georgia
Global Payments Check Recovery Services, Inc.	Georgia
NDPS Holdings, Inc.	Delaware
Global Payments Gaming Services, Inc.	Illinois
GP Finance, Inc.	Delaware
Modular Data, Inc.	Delaware
Global Comerica Alliance Corp.	Georgia (1)

(1) Global Payments Comerica Alliance, LLC and Global Comerica Alliance Corp. each have minority partners which collectively own a 49% interest.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-52774 of Global Payments Inc. on Form S-8 of our report dated July 16, 2003 (except with respect to the matter discussed under "Legal" in Note 13, as to which the date is July 31, 2003 and except for Note 16, as to which the date is August 11, 2003), relating to the consolidated financial statements of Global Payments Inc. and subsidiaries as of and for the years ended May 31, 2003 and 2002 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the Company's change in its method of accounting for goodwill and other intangible assets to conform with Statement of Financial Accounting Standards No. 142 and the Company's change in its method of accounting for costs associated with exit or disposal activities to conform with Statement of Financial Accounting Standards No. 146 and (ii) the application of procedures relating to certain disclosures of financial statement amounts related to the 2001 financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures) appearing in the Annual Report on Form 10-K of Global Payments Inc. for the year ended May 31, 2003.

DELOITTE & TOUCHE LLP

Atlanta, Georgia
August 26, 2003

**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, Paul R. Garcia, certify that:

1. I have reviewed this annual report on Form 10-K of Global Payments Inc.;
2. Based on my knowledge, this annual 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(s) 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)) 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) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures 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 (the registrant's fourth quarter in the case of an annual report) 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(s) 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 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 controls over financial reporting.

Date: August 26, 2003

By:

/s/ PAUL R. GARCIA

Paul R. Garcia
Chief 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, James G. Kelly, certify that:

1. I have reviewed this annual report on Form 10-K of Global Payments Inc.;
2. Based on my knowledge, this annual 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(s) 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)) 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) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures 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; 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 (the registrant's fourth quarter in the case of an annual report) 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(s) 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 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 controls 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 controls over financial reporting.

Date: August 26, 2003

By: _____ /s/ JAMES G. KELLY

James G. Kelly
Chief 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 Annual Report of the Global Payments Inc. on Form 10-K for the period ended May 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Paul R. Garcia, Chief Executive Officer of Global Payments Inc. (the "Company"), and James G. Kelly, Chief Financial Officer of the Company, 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 the Company.

/s/ PAUL R. GARCIA

/s/ JAMES G. KELLY

Paul R. Garcia
Chief Executive Officer
Global Payments Inc.
August 26, 2003

James G. Kelly
Chief Financial Officer
Global Payments Inc.
August 26, 2003

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.

RISK FACTORS

The conviction of our former independent auditors, Arthur Andersen LLP, on federal obstruction of justice charges may adversely affect Arthur Andersen LLP's ability to satisfy any claims arising from the provision of auditing services to us and may impede our access to the capital markets.

Arthur Andersen LLP, which audited our financial statements for the years ended May 31, 2001 and 2000, was indicted in March 2002 on federal obstruction of justice charges arising from the government's investigation of Enron Corporation. Arthur Andersen was tried on such charges by a jury and found guilty on June 15, 2002. In light of the jury verdict and the underlying events, Arthur Andersen LLP has informed the SEC that it will stop practicing before the Commission by August 31, 2002, unless the Commission determines that another date is appropriate. The SEC has stated that, for the time being, it will continue accepting financial statements audited by Arthur Andersen LLP. It is possible that events arising out of the conviction may adversely affect the ability of Arthur Andersen LLP to satisfy any claims arising from its provision of auditing services to us, including claims that could arise out of Arthur Andersen LLP's audit of our financial statements included in our periodic reports, prospectuses or registration statements filed with the SEC.

Should we seek to access the public capital markets, SEC rules will require us to include or incorporate by reference in any prospectus three years of audited financial statements. The SEC's current rules would require us to present audited financial statements for one or more fiscal years audited by Arthur Andersen LLP and obtain their consent and representations until our audited financial statements for the fiscal year ending May 31, 2004 become available in the first quarter ended August 31, 2004. We expect that we would not be able to obtain the necessary consent and representations from Arthur Andersen LLP. The audit partner and substantially all of the audit team who audited our financial statements are no longer with Arthur Andersen LLP, and that firm would likely not agree to issue a consent or make any representations in their absence. As a result, we may not be able to satisfy the SEC requirements for a registration statement or for our periodic reports. Even if the SEC decides to accept financial statements previously audited by Arthur Andersen LLP, but without their current consent and representations, those financial statements would not provide us and any underwriters with the same level of protection under the securities laws, as would otherwise be the case. In either of these situations, our access to the capital markets would be impaired unless Deloitte & Touche LLP, our current independent accounting firm, or another independent accounting firm, is able to audit the financial statements originally audited by Arthur Andersen LLP. Any delay or inability to access the public capital markets caused by these circumstances could have a material adverse effect on our business, profitability and growth prospects.

As a result of CIBC's ownership of 26.3% of our common stock, certain banking regulations limit the types of business in which we can engage.

As a result of CIBC's ownership of 26.3% of our common stock, technically we are considered as though we are a subsidiary of CIBC for purposes of certain U.S. banking regulations, and will be subject to the same restrictions on our business activities as are applicable to CIBC. As a general matter, we are able to operate our merchant service and funds transfer businesses as we have historically, but our ability to expand into unrelated businesses may be limited unless they are activities permitted under the Bank Holding Company Act or permitted by the Federal Reserve Board (the primary U.S. federal regulator for CIBC and its U.S.-based subsidiaries). The applicable regulations are interpreted to mean that a company will be deemed a subsidiary of a bank holding company, and therefore subject to the regulations, if the bank holding company owns 25% or more of the equity of a company. These restrictions are contained in the Bank Holding Company Act, as recently amended by the Gramm-Leach-Bliley Act. The restrictions on our business activities would also apply to any investments or alliances that we might consider.

The Bank Holding Company Act limits CIBC and its subsidiaries to activities that are closely related to the business of banking. Under the Gramm-Leach-Bliley amendments, certain well-managed and well-capitalized companies may elect to be treated as "financial holding companies," and may thus also engage in certain

financial activities such as insurance and securities underwriting. CIBC has elected to be a financial holding company. If CIBC ever fails to maintain its status as a financial holding company, they and we would lose the benefit of the expanded activities provided by the Gramm-Leach-Bliley amendments and may have to divest of certain businesses or investments.

In being considered a subsidiary of CIBC for purposes of certain U.S. banking regulations, we will be subject to supervision and examination by the Federal Reserve Board. We and CIBC are required to comply with the Federal Reserve Board's regulatory requirements prior to commencing new activities, engaging in acquisitions or making new investments. Should CIBC fail to be in compliance with the Federal Reserve Board's regulatory requirements, it could affect our ability to obtain necessary approvals or clearances. Such limitations could impede our ability to compete with other companies not subject to such restrictions.

Additionally, CIBC is subject to Canadian banking regulations, specifically the *Bank Act* (Canada), which among other things limits the types of business which CIBC may conduct, directly or indirectly, and the types of investments which CIBC may make. CIBC's shareholding in our company is currently permitted under the *Bank Act*. The *Bank Act*, except as we have discussed, does not otherwise apply to us.

Under the *Bank Act*, CIBC is continuing to hold its interest in us, as long as the business undertaken by us is consistent with the applicable provisions of the *Bank Act*. If we undertake businesses inconsistent with the businesses in which CIBC is permitted to hold an interest, CIBC may be required, pursuant to the provisions of the *Bank Act*, to dispose of its shares prior to the expiration of the restrictions on re-sale that we have negotiated with CIBC.

We have agreed with CIBC, in effect, that we will not undertake any business inconsistent with the applicable provisions of the *Bank Act*. Our ability to expand into other businesses will be governed by the undertaking and the applicable provisions of Canadian banking legislation at the relevant time. For a more complete discussion of the banking regulations we are subject to please see "Business—Banking Regulations."

With the acquisition of CIBC's merchant acquiring business and National Bank's merchant acquiring business, we are exposed to foreign currency risks. We are also subject to risks from our variable rate credit facility with CIBC that could reduce our earnings and significantly increase our cost of capital.

As a result of acquiring the assets of CIBC's merchant acquiring business and National Bank's merchant acquiring business, we have significant operations in Canada which will be denominated in Canadian dollars. The repatriation of our earnings in Canada will subject us to the risk that currency exchange rates between Canada and the United States will fluctuate and we will lose some of our earnings when they are exchanged into U.S. dollars.

Additionally, our credit facility with CIBC carries an interest rate based on Canadian Dollar LIBOR (C\$LIBOR). This rate will fluctuate with market rates, and if it increases, our cost of capital will also increase which will reduce our earnings from operations. The credit facility currently expires on December 9, 2003 and is renewable only at the consent of CIBC. CIBC may choose not to renew the credit facility at which point we will have to find alternative financing or fund the Canadian merchants ourselves. Alternative financing may carry a higher interest rate which would reduce our earnings from operations. We may not have the cash flow necessary to fund the Canadian merchants ourselves, and we may lose those customers as a result.

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

Our future growth and profitability depends upon our continued expansion within the electronic payments markets in which we currently operate, the further expansion of these markets, the emergence of other markets for electronic transaction processing, including internet payment systems, and our ability to penetrate these markets. As part of our strategy to achieve this expansion, we are continually looking for acquisition opportunities, investments and alliance relationships with other businesses that will allow us to increase our market penetration, technological capabilities, product offerings and distribution capabilities. We may not be able

to successfully identify suitable acquisition, investment and alliance candidates in the future, and if we do, they may not provide us with the benefits we anticipated. Once completed, investments and alliances may not realize the value that we expect.

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

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

The electronic payments market in which we compete includes a wide range of products and services including electronic transaction processing, reporting on transactions and other customer support services. The market is characterized by technological change, new product introductions, evolving industry standards and changing customer needs. In order to remain competitive, we are continually involved in a number of research and development projects. These projects carry the risks associated with any research and development effort, including cost overruns, delays in delivery and performance problems, but in the electronic payments market these risks are even more acute. Our market is constantly experiencing rapid technological change. Any delay in the delivery of new products or services could render them less desirable by our customers, or possibly even obsolete. In addition, the products and services we deliver to the electronic payments market are designed to process very complex transactions and deliver reports and other information on those transactions, all at very high volumes and processing speeds. Any performance issue that arises with a new product or service could result in significant processing or reporting errors. As a result of these factors, our research and development efforts could result in increased costs that could reduce our operating profit, a loss of revenue if promised new products are not timely delivered to our customers, or a loss of revenue or possible claims for damages if new products and services do not perform as anticipated.

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 in terms of the price offered to customers or the ability to develop new technologies.

We operate in the payments systems industry. Our primary competitors in this industry include other independent processors, as well as certain major national and regional banks, financial institutions and independent sales organizations. According to industry reports such as *The Nilson Report*, First Data Corporation and its affiliates is the largest competitor in our industry. First Data and others who are larger than we are, have greater financial and operational resources than we have. This may allow them to offer better pricing terms to customers in the industry, which could result in a loss of our potential or current customers or could force us to lower our prices as well. Either of these actions could have a significant effect on our revenues. In addition, our competitors may have the ability to devote more financial and operational resources than we can to the development of new technologies, including Internet payment processing services that provide improved operating functionality and features to their product and service offerings. If successful, their development efforts could render our product and services offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price we could demand for our offerings.

We are dependent on NDC for the provision of critical telecommunications services, network systems and other related services for the operation of our business, and the failure of NDC to provide those services in a satisfactory manner could affect our relationships with customers and our financial performance.

Under the terms of the intercompany systems/network services agreement between NDC and us, NDC will provide us with a continuation of the telecommunication services from the carriers who have and will continue to

provide telecommunication services to NDC, including engineering and procurement. In addition, NDC will supply us with the necessary network systems services, including operations and administrative services and computing hardware and software facilities, technical support for transaction processing, cash management and file transfer and communications hardware and software system services. These services, especially telecommunications services, are an essential communications link between us and our customers and an essential component of the services that we provide. If NDC should not continue to perform these services efficiently and effectively, our relationships with our customers may be adversely affected and customers may terminate their use of our services. If we are not able to successfully develop the capacity to provide these services prior to the expiration of our agreement with NDC or if NDC does not provide such services in an efficient and effective manner during the term of that agreement, we are not certain whether we could locate alternative sources of such services, particularly telecommunications services, or that, if available, such services would be available on favorable terms.

Reduced levels of consumer spending can adversely affect our revenues.

A significant portion of our revenues is derived from fees from processing consumer credit card and debit card transactions. While consumer spending in the U.S. may be recovering, continued sluggishness of the U.S. economy or recession in the international economies where we do business could negatively impact consumer spending and adversely affect our revenues and earnings.

Loss of strategic industries could reduce revenues and earnings.

Although our merchant portfolio is well diversified and neither one economic sector nor any customer concentration represents a significant portion of our business, a decrease in strategic industries could cause us to lose significant revenues and earnings. The travel and entertainment industry experienced substantial economic loss over the past year. This did not have a material affect on our business during fiscal year 2003. Unexpected and significant declines in travel and entertainment or other industries may impact our business and result in decreases in revenues and profits.

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

We collect personal consumer data, such as names, credit and debit account numbers, checking account numbers, and payment history records. We process that data, and deliver our products and services, utilizing computer systems and telecommunications networks operated both by us and by third party service providers. Although plans and procedures are in place to protect our sensitive data and to prevent failure of, and to provide backup for, our systems, we cannot be certain that our measures always will be successful. A security breach or other misuse of our data, or failures of key operating systems and their back-ups, could harm our reputation and deter customers from using our products and services, increase our operating expenses in order to correct the breaches or failures, or expose us to unbudgeted or uninsured liability.

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

As banks continue to consolidate, our ability to successfully offer our services through the indirect channel will depend in part on whether the institutions that survive are willing to outsource their credit and debit processing to third-party vendors and whether those institutions have pre-existing relationships with any of our competitors. Larger banks and larger merchants with greater transaction volumes may demand lower fees which could result in lower operating margins for us.

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

A recessionary economic environment could affect our merchants through a higher rate of bankruptcy filings resulting in lower revenues and profits for us. Our merchants have the liability for any charges properly reversed by the cardholder. In the event, however, that we are not able to collect such amounts from the merchants, due to merchant fraud, insolvency, bankruptcy or another reason, we may be liable for any such

charges. We require cash reserve deposits, guarantees, letters of credit and other types of collateral by our riskier merchants to minimize any such contingent liability. We also utilize a number of systems and procedures to manage merchant risk. Any risks associated with an unexpected recessionary economy that we could not mitigate may result in lower profits and revenues and earnings for us.

Utility and system interruptions or processing errors could adversely affect our operations.

In order to process transactions promptly, our computer equipment and network servers must be functional on a 24-hour basis, which requires access to telecommunications facilities and the availability of electricity. Further, with respect to certain processing services, we are dependent on the systems and services of third party vendors. Telecommunications services and the electricity supply are susceptible to disruption. Computer system interruptions and other processing errors, whether involving our own systems or our third party vendor's system, may result from such disruption or from human error or other unrelated causes. Any extensive or long-term disruptions in our processing services could cause us to incur substantial additional expense, which could have an adverse effect on our operations and financial condition.

Our revenues from the sale of services to VISA and MasterCard organizations are dependent upon our continued VISA and MasterCard certification and financial institution sponsorship.

In order to provide our transaction processing services, we must be designated a certified processor by, and be a member service provider of, MasterCard and an independent sales organization of VISA. These designations are dependent upon our being sponsored by member clearing banks of both organizations and our continuing adherence to the standards of the VISA and MasterCard associations. The member financial institutions of VISA and MasterCard, some of which are our competitors, set the standards with which we must comply. If we fail to comply with these standards, our designation as a certified processor, a member service provider or as an independent sales organization could be suspended or terminated. The termination of our member service provider status or our status as a certified processor, or any changes in the VISA and MasterCard rules that prevent our registration or otherwise limit our ability to provide transaction processing and marketing services for the VISA or MasterCard organizations would most likely result in the loss of these organizations as customers and lead to a reduction in our revenues.

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

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

Loss of Key Independent Sales Organizations or ISO's could reduce our revenue growth.

Our ISO sales channel, which purchases and resells our end-to-end services to its own portfolio of merchant customers, is a strong contributor to our revenue growth. If an ISO switches to another transaction processor, we will no longer receive new merchant referrals from the ISO. In addition, we risk losing existing merchants that were originally enrolled by the ISO. Although we have generally attempted to protect ourselves against this type of merchant attrition through contractual restrictions, we cannot assure you that such contractual restrictions will be successful. In addition, it is generally difficult and time-consuming to move merchant portfolios from one processor to another. Consequently, if a key ISO switches to another transaction processor, our revenues and earnings could be negatively affected.

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

We are dependent upon the ability and experience of a number of our key personnel who have substantial experience with our operation, the rapidly changing transaction processing industry, and the selected markets in

which we offer our services. It is possible that the loss of the services of one or a combination of our key personnel would have an adverse effect on our operation. Our success also depends on our ability to continue to attract, manage, and retain additional qualified management and technical personnel as we grow. We cannot assure you that we will continue to attract or retain such personnel.

The credit risk of our direct merchant customers could adversely affect our revenues.

Our direct merchant customers have liability for any charges properly reversed by a cardholder. In the event, however, that we are not able to collect such amounts from a merchant, due to merchant fraud, insolvency, bankruptcy or another reason, we may be liable for any such reversed charges. We generally require cash deposits, guarantees, letters of credit and other types of collateral by certain merchants to minimize any such contingent liability. We also utilize a number of systems and procedures to manage merchant risk, and we hold reserves for losses on our books. However, we cannot assure you that such procedures will be sufficient to cover unanticipated losses, which may negatively affect our earnings and revenues.

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

Transaction processing companies like us may be subject to taxation by various U.S. states on certain portions of our fees charged to customers for our services. Application of these taxes is an emerging issue in our industry and the states have not yet adopted uniform regulations on this topic. If we are required to pay such taxes and are not able to pass the tax expense through to our merchant customers, our operating costs will increase, reducing our profit margin.

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

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

- divide our board of directors into three classes, with members of each class to be elected in staggered three-year terms;
- limit the right of shareholders to remove directors;
- regulate how shareholders may present proposals or nominate directors for election at annual meetings of shareholders; and
- authorize our board of directors to issue preferred shares in one or more series, without shareholder approval.

Also, under Section 355(e) of the Internal Revenue Code, the spin-off from NDC will be treated as a taxable transaction if one or more persons acquire directly or indirectly 50% or more of our or NDC's stock (measured by vote or value) as part of a plan or series of related transactions that is linked to the spin-off under the rules of Section 355(e). For this purpose, any acquisitions of our stock or NDC stock within two years before or after the spin-off are presumed to be part of such a plan, although NDC or we may be able to rebut that presumption. If such an acquisition of our stock triggers the application of Section 355(e), under the tax sharing agreement, we would be required to indemnify NDC for the resulting tax. This indemnity obligation might discourage, delay or prevent a change of control that shareholders may consider favorable.

We may not be able or we may decide not to pay dividends at a level anticipated by shareholders on our common stock, which could reduce your return on shares you hold.

The payment of dividends is at the discretion of our board of directors and will be subject to our financial results, our working capital requirements, the availability of surplus funds to pay dividends and restrictions under our credit facility. No assurance can be given that we will be able to or will choose to pay any dividends in the foreseeable future.