
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 29, 2004

OR

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

For the transition period from _____ to _____.

Commission file number 001-16111



GLOBAL PAYMENTS INC.

(Exact name of registrant as specified in charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

10 Glenlake Parkway, North Tower, Atlanta, Georgia
(Address of principal executive offices)

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

30328
(Zip Code)

Registrant's telephone number, including area code: 770-829-8234

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

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

The number of shares of the issuer's common stock, no par value outstanding as of March 26, 2004 was 37,857,382.

[Table of Contents](#)

GLOBAL PAYMENTS INC.
FORM 10-Q
For the quarterly period ended February 29, 2004

TABLE OF CONTENTS

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
ITEM 1.	<u>FINANCIAL STATEMENTS</u>
	Unaudited Consolidated Statements of Income for the three months ended February 29, 2004 and February 28, 2003
	3
	Unaudited Consolidated Statements of Income for the nine months ended February 29, 2004 and February 28, 2003
	4
	Consolidated Balance Sheets at February 29, 2004 and May 31, 2003
	5
	Unaudited Consolidated Statements of Cash Flows for the nine months ended February 29, 2004 and February 28, 2003
	6
	Notes to Unaudited Consolidated Financial Statements
	7
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>
	17
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>
	23
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>
	23
<u>PART II - OTHER INFORMATION</u>	
ITEM 1.	<u>LEGAL PROCEEDINGS</u>
	24
ITEM 6.	<u>EXHIBITS AND REPORTS ON FORM 8-K</u>
	24
	<u>SIGNATURES</u>
	25

[Table of Contents](#)

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
GLOBAL PAYMENTS INC.

(In thousands, except per share data)

	Three Months Ended	
	February 29, 2004	February 28, 2003
Revenues	\$ 162,560	\$ 124,573
Operating expenses:		
Cost of service	71,773	62,682
Sales, general and administrative	60,355	40,108
	132,128	102,790
Operating income	30,432	21,783
Other income (expense):		
Interest and other income	466	219
Interest and other expense	(2,337)	(1,172)
Minority interest in earnings	(2,198)	(1,505)
	(4,069)	(2,458)
Income before income taxes	26,363	19,325
Provision for income taxes	9,860	7,228
Net income	\$ 16,503	\$ 12,097
Basic earnings per share	\$ 0.44	\$ 0.33
Diluted earnings per share	\$ 0.42	\$ 0.32

See Notes to Unaudited Consolidated Financial Statements.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
GLOBAL PAYMENTS INC.

(In thousands, except per share data)

	Nine Months Ended	
	February 29, 2004	February 28, 2003
Revenues	\$ 447,471	\$ 381,762
Operating expenses:		
Cost of service	201,209	193,963
Sales, general and administrative	157,842	116,945
Restructuring	4,703	—
	<u>363,754</u>	<u>310,908</u>
Operating income	83,717	70,854
Other income (expense):		
Interest and other income	1,219	733
Interest and other expense	(3,972)	(3,380)
Minority interest in earnings	(5,564)	(3,842)
	<u>(8,317)</u>	<u>(6,489)</u>
Income before income taxes	75,400	64,365
Provision for income taxes	28,200	24,072
Net income	<u>\$ 47,200</u>	<u>\$ 40,293</u>
Basic earnings per share	<u>\$ 1.26</u>	<u>\$ 1.09</u>
Diluted earnings per share	<u>\$ 1.22</u>	<u>\$ 1.07</u>

See Notes to Unaudited Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS
GLOBAL PAYMENTS INC.

(In thousands, except share data)

	<u>February 29, 2004</u>	<u>May 31, 2003</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85,890	\$ 38,010
Accounts receivable, net of allowance for doubtful accounts of \$653 and \$733, respectively	47,932	44,929
Claims receivable, net of allowance for losses of \$3,409 and \$3,193, respectively	631	608
Settlement processing receivable, net	79,637	68,070
Inventory	3,823	1,348
Deferred income taxes	4,735	5,096
Prepaid expenses and other current assets	11,138	4,042
	<u>233,786</u>	<u>162,103</u>
Property and equipment, net	92,400	51,785
Goodwill, net	327,401	161,216
Other intangible assets, net	187,769	137,898
Other	10,519	5,132
	<u>\$ 851,875</u>	<u>\$ 518,134</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ 161,000	\$ —
Line of credit with related party	82,701	33,900
Obligations under capital leases	1,161	1,456
Accounts payable and accrued liabilities	72,458	58,781
Income taxes payable	6,862	2,624
	<u>324,182</u>	<u>96,761</u>
Notes payable	11,994	—
Obligations under capital leases, net of current portion	2,370	3,251
Deferred income taxes	43,832	19,344
Other long-term liabilities	9,283	9,111
	<u>391,661</u>	<u>128,467</u>
Commitments and contingencies (See Note 5)		
Minority interest in equity of subsidiaries	31,893	23,241
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; 37,841,107 and 37,132,054 shares issued and outstanding at February 29, 2004 and May 31, 2003, respectively	—	—
Paid-in capital	304,136	286,786
Retained earnings	110,276	67,582
Deferred compensation	(4,370)	(965)
Accumulated other comprehensive income	18,279	13,023
	<u>428,321</u>	<u>366,426</u>
Total liabilities and shareholders' equity	<u>\$ 851,875</u>	<u>\$ 518,134</u>

See Notes to Unaudited Consolidated Financial Statements.

[Table of Contents](#)**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
GLOBAL PAYMENTS INC.**

(In thousands)

	Nine Months Ended	
	February 29, 2004	February 28, 2003
Cash flows from operating activities:		
Net income	\$ 47,200	\$ 40,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Restructuring	387	—
Depreciation and amortization	15,430	15,570
Amortization of acquired intangibles	9,671	8,656
Provision for operating losses and bad debts	4,376	6,486
Minority interest in earnings	5,564	3,842
Other, net	1,464	1,283
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable, net	3,057	956
Settlement processing, net	(17,885)	(30,877)
Inventory	(857)	693
Prepaid expenses and other assets	(6,235)	(849)
Accounts payable and accrued liabilities	3,831	(6,534)
Income taxes payable	2,804	13,342
Net cash provided by operating activities	68,807	52,861
Cash flows from investing activities:		
Capital expenditures	(15,042)	(12,707)
Business acquisitions, net of cash acquired	(94,965)	(1,153)
Net cash used in investing activities	(110,007)	(13,860)
Cash flows from financing activities:		
Net borrowings (payments) on line of credit	161,000	(22,000)
Net borrowings on line of credit with related party and restricted for merchant funding	48,801	—
Principal payments on notes payable issued in consideration of acquisition	(114,229)	—
Principal payments under long-term debt and capital lease arrangements	(1,465)	(1,991)
Stock issued under employee stock plans	4,670	3,468
Dividends paid	(4,506)	(4,433)
Distributions to minority interests	(6,674)	(5,340)
Net cash provided by (used in) financing activities	87,597	(30,296)
Effect of exchange rate changes on cash	1,483	1,469
Increase in cash and cash equivalents	47,880	10,174
Cash and cash equivalents, beginning of period	38,010	19,194
Cash and cash equivalents, end of period	\$ 85,890	\$ 29,368

See Notes to Unaudited Consolidated Financial Statements.

**NOTES TO UNAUDITED CONSOLIDATED
FINANCIAL STATEMENTS
FEBRUARY 29, 2004**

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, consumers and government agencies. These services are marketed through various sales channels to customers as two distinct service offerings: merchant services and money transfer.

The unaudited consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. These 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.

The Company has prepared the unaudited consolidated financial statements included herein, pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate and the information presented is not misleading. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K for the fiscal year ended May 31, 2003. The prior year presentation of the line of credit with related party on the consolidated balance sheet has been changed to conform to the current year presentation. In the opinion of management, the information furnished reflects adjustments of a normal and recurring nature and includes those adjustments necessary for a fair presentation of the financial information for the interim periods reported.

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—

Merchant Services Offering.

Card information and transaction processing services revenue are primarily based on a percentage of transaction value or on a specified amount per transaction. This revenue is recognized as such services are performed. Revenue for processing services provided directly to merchants is recorded net of interchange fees charged by credit card associations.

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’ face value. The Company establishes a claims receivable from the delinquent checkwriter for the full amount of the guaranteed check and it establishes a valuation allowance for this activity based on historical and projected loss experience. See *Reserve for operating losses* below.

Table of Contents

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 unit of accounting 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.

Money Transfer Offering.

Consumer-to-consumer money transfer revenue is earned on fees charged to customers based on the nature and amount of the transaction performed on the customers' behalf and is recognized at the time of sale. The Company also earns consumer-to-consumer money transfer revenue on the difference between the retail exchange rate quoted at the time when the money transfer transaction is requested and the wholesale exchange rate at the time when the currency is purchased. This revenue is recognized when the money transfer transaction is processed through the settlement system and the funds are available to the beneficiary.

Settlement processing receivable, net—The settlement processing receivable results from timing differences in the Company's settlement process for direct merchants. 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. This balance also reflects amounts payable to beneficiaries through the Company's money transfer offering that have not been claimed at a settlement location as of the balance sheet date.

Reserve for operating losses—The Company processes credit card transactions for direct merchants. The Company's direct merchant customers are liable for any charges properly reversed by a cardholder and for any sales credits issued to a cardholder. In the event, however, that the Company is not able to collect such amount from a merchant 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 direct 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 for its direct merchants primarily based on a percentage of the gross amount charged but 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 specific identification of known exposures. Economic downturns or increases in merchant fraud may result in significant increases in credit related losses. As of February 29, 2004 and May 31, 2003, \$7.4 million and \$5.4 million, respectively, were reserved for losses associated with the Company's direct merchant card processing operations. The expense associated with the valuation allowance is included in cost of service in the accompanying unaudited consolidated statements of income.

The Company also has a check guarantee offering. Similar to the credit card transaction processing service for direct merchants, the Company charges its merchants a percentage of the face 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

Table of Contents

recovered 100% of the guaranteed checks. The Company establishes a valuation allowance for this activity based on historical and volume-based projected loss experiences. As of February 29, 2004 and May 31, 2003, the Company had a check guarantee reserve of \$3.4 million and \$3.2 million, respectively. The expense associated with the valuation allowance is included in cost of service in the accompanying unaudited 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 our historical experience and our estimates used in calculating the valuation allowance.

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. In accordance with this 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 and determined that the fair value of the reporting unit exceeded the carrying amount of the net assets, including goodwill of the reporting unit. The Company completed its annual goodwill impairment review as of June 1, 2003 and determined that no impairment charge to goodwill was required.

Other intangible assets primarily represent customer-related intangible assets, such as customer lists and merchant contracts, and trademarks associated with acquisitions. Customer-related intangible assets are amortized using the straight-line method over their estimated useful lives of 3 to 30 years. The useful lives for customer-related intangible assets are determined based primarily on information concerning start/stop dates and yearly attrition. The trademarks were determined to have an indefinite life and are not being amortized. The Company evaluated the remaining useful lives for other intangible assets as of June 1, 2003 and determined them to be appropriate.

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 condition are not significantly reliant upon any single customer.

During the second quarter of fiscal 2004, the Company completed an acquisition of a consumer-to-consumer money transfer business, as described further in Note 3. Concurrent with this acquisition, the Company changed the name of its “funds transfer” service offering to “money transfer.” The Company’s service offering revenues from external customers are as follows:

	Three Months Ended		Nine Months Ended	
	February 29, 2004	February 28, 2003	February 29, 2004	February 28, 2003
	(in thousands)			
Merchant services	\$ 141,638	\$ 121,819	\$ 416,802	\$ 372,887
Money transfer	20,922	2,754	30,669	8,875
	<u>\$ 162,560</u>	<u>\$ 124,573</u>	<u>\$ 447,471</u>	<u>\$ 381,762</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 is the same as net income reported for all periods presented.

Diluted earnings per share is computed by dividing reported earnings available to common shareholders by weighted average shares outstanding during the period including 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 are generally assumed to have a dilutive effect on earnings per share.

Table of Contents

The following tables set forth the computation of basic and diluted earnings per share for the three and nine months ended February 29, 2004 and February 28, 2003:

	Three Months Ended					
	February 29, 2004			February 28, 2003		
	Income	Shares	Per Share	Income	Shares	Per Share
	(in thousands, except per share data)					
Basic EPS:						
Net income available to common shareholders	\$ 16,503	37,725	\$ 0.44	\$ 12,097	36,993	\$ 0.33
Dilutive effect of stock options and restricted stock awards	—	1,604	(0.02)	—	901	(0.01)
Diluted EPS:						
Net income available to common shareholders	\$ 16,503	39,329	\$ 0.42	\$ 12,097	37,894	\$ 0.32
	Nine Months Ended					
	February 29, 2004			February 28, 2003		
	Income	Shares	Per Share	Income	Shares	Per Share
	(in thousands, except per share data)					
Basic EPS:						
Net income available to common shareholders	\$ 47,200	37,444	\$ 1.26	\$ 40,293	36,914	\$ 1.09
Dilutive effect of stock options and restricted stock awards	—	1,388	(0.04)	—	855	(0.02)
Diluted EPS:						
Net income available to common shareholders	\$ 47,200	38,832	\$ 1.22	\$ 40,293	37,769	\$ 1.07

The dilutive share base for the three months ended February 28, 2003 excludes incremental shares of 0.7 million related to employee stock options. For the nine months ended February 29, 2004 and February 28, 2003, the dilutive share base excludes incremental shares related to employee stock options of 0.2 million and 0.7 million, respectively. 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 during the applicable periods. 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.

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 February 29, 2004, the Company has three stock-based compensation plans. These include the Global Payments Inc. Amended and Restated 2000 Long-Term Incentive Plan ("2000 Plan"), the 2000 Non-Employee Director Stock Option Plan and the 2000 Employee Stock Purchase Plan.

The Company accounts for options issued as stock-based compensation under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. For options issued as stock-based compensation, no cost is reflected in net income, as all options granted under the plans have an exercise price equal to the market value of the underlying common stock on the date of grant. Performance shares granted as restricted stock under the 2000 Plan are recorded as deferred compensation, a reduction of shareholders' equity, based on the quoted fair market value of the Company's common stock at the award date. Compensation expense on restricted stock is recognized ratably during the vesting period of the award. 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 all stock-based employee compensation.

Table of Contents

	Three Months Ended		Nine Months Ended	
	February 29, 2004	February 28, 2003	February 29, 2004	February 28, 2003
(in thousands, except for share data)				
Net income:				
As reported	\$ 16,503	\$ 12,097	\$ 47,200	\$ 40,293
Amortization of restricted stock awards, net of tax effect	350	199	895	595
Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,468)	(1,071)	(3,872)	(3,185)
Pro forma net income	\$ 15,385	\$ 11,225	\$ 44,223	\$ 37,703
Basic earnings per share				
As reported	\$ 0.44	\$ 0.33	\$ 1.26	\$ 1.09
Pro forma	\$ 0.41	\$ 0.31	\$ 1.18	\$ 1.03
Diluted earnings per share:				
As reported	\$ 0.42	\$ 0.32	\$ 1.22	\$ 1.07
Pro forma	\$ 0.39	\$ 0.30	\$ 1.13	\$ 1.00

NOTE 2—COMPREHENSIVE INCOME

The components of comprehensive income for the three and nine months ended February 29, 2004 and February 28, 2003 are as follows:

	Three Months Ended		Nine Months Ended	
	February 29, 2004	February 28, 2003	February 29, 2004	February 28, 2003
(in thousands)				
Net income	\$ 16,503	\$ 12,097	\$ 47,200	\$ 40,293
Foreign currency translation Foreign currency translation	90	963	3,290	924
Total comprehensive income	\$ 16,593	\$ 13,060	\$ 50,490	\$ 41,217

NOTE 3—BUSINESS ACQUISITIONS

MUZO, a.s.

On February 18, 2004, the Company, through an indirect, wholly-owned subsidiary, acquired 52.6% of the outstanding voting shares of MUZO, a.s. (“MUZO”) from Komerční banka, a.s. (“KB”), for \$34.7 million in cash. The Company believes that MUZO is the largest indirect payment processor in the Czech Republic holding a market share of approximately 50%.

Based in Prague, MUZO has served financial institutions since 1992 with a comprehensive package of payment services including credit and debit card transaction processing, sales, installation and servicing of ATM and POS terminals, as well as card issuing services (such as card database management and card personalization). MUZO has approximately 240 employees.

Pursuant to Czech law, Global Payments expects to announce a public tender offer by the end of April 2004 for the remaining shares of MUZO at approximately the same value per share that was paid to KB. The Company’s interest in MUZO was primarily based on a desire to establish a presence in the Czech Republic and the surrounding Central and Eastern European markets, which we believe will have superior growth potential. The key factors that contributed to the decision to acquire MUZO include historical and prospective financial statement analysis, terms of major customer contracts, market share, technological sophistication, quality of the management team and previous business development activity by other companies in the European market.

Table of Contents

Latin America Money Services, LLC

On November 12, 2003, Global Payments completed the acquisition of Latin America Money Services, LLC (“LAMS”), a Delaware limited liability company which owned a majority of the outstanding equity interests in DolEx Dollar Express, Inc. (“DolEx”), a Texas corporation, and all but one share of the outstanding equity interests in DolEx Envios, S.A. de C.V. (“DolEx Envios”), a Mexican subsidiary of DolEx. The transaction was structured as a merger of GP Ventures (Texas), Inc., a Delaware corporation and wholly-owned subsidiary of Global Payments, into LAMS, with LAMS remaining as the surviving entity in the merger. Global Payments also acquired the remaining equity interests in DolEx that were not already owned by LAMS.

As a result of the transaction, LAMS, a holding company, is a wholly-owned subsidiary of Global Payments. DolEx, the operating company, is a wholly-owned subsidiary of LAMS and DolEx Envios is a majority-owned subsidiary of DolEx because one share of DolEx Envios is owned by GP Finance, Inc., a wholly-owned subsidiary of Global Payments. The Company frequently refers to this transaction as the DolEx acquisition, since DolEx is the primary operating company within the LAMS group.

Under the terms of the merger and related agreements, the Company gave consideration of approximately \$193 million for LAMS, DolEx and DolEx Envios through a combination of \$62 million in cash, net of cash acquired of \$9 million, the issuance of \$114 million in promissory notes payable to the order of the sellers, and the issuance of common stock with an approximate fair value of \$8 million. On December 1, 2003, the Company repaid the promissory notes in full using its U.S. credit facility.

During the fourth quarter of fiscal 2004, the Company may be required to make further contingent payments for the DolEx acquisition primarily based on DolEx attaining certain performance levels for calendar year 2003.

Global Payments’ interest in DolEx was primarily based on a desire to establish a presence in the United States to Latin America money transfer market. The key factors that contributed to the decision to acquire DolEx include historical and prospective financial statement analysis, market share and level of competition from other money transmitters operating in the same funds flow corridor, technological sophistication, quality of management team, breadth of company-owned branch network and previous business development activity in the U.S. to Latin America money transfer market.

Purchase Price Allocations

The LAMS and MUZO acquisitions have been recorded using the purchase method of accounting, and accordingly, the purchase price for each acquisition has been allocated to the assets acquired and liabilities assumed based on their estimated fair value as of the date of each respective acquisition. The operating results from each acquisition are included in the Company’s Unaudited Consolidated Statements of Income from the date of such acquisition.

The following table summarizes the preliminary purchase price allocations of the assets acquired and liabilities assumed at the date of acquisition.

	<u>LAMS</u>	<u>MUZO</u>
	(in thousands)	
Current assets	\$ 13,637	\$ 8,765
Other long-term assets	1,988	11
Property and equipment, net	12,241	29,740
Customer-related intangible assets	4,749	10,520
Trademark	42,944	—
Goodwill	146,320	16,771
	<u>221,879</u>	<u>65,807</u>
Total assets acquired	221,879	65,807
Current liabilities	(9,406)	(4,151)
Long-term liabilities	(19,591)	(17,181)
Minority interest in equity	—	(9,762)
	<u>192,882</u>	<u>34,713</u>
Net assets acquired	\$ 192,882	\$ 34,713

Table of Contents

The LAMS and MUZO customer-related intangible assets were determined to have useful lives of three and fifteen years, respectively. The goodwill is not subject to amortization and none of the amount assigned to goodwill is deductible for tax purposes.

Supplemental Pro Forma Information

The following unaudited pro forma summary presents information as if DoIEx had been acquired at the beginning of the periods presented. The Company has not included interim pro forma information from MUZO financial statements due to the inter-period timing of the close of the acquisition less than two weeks before the end of the fiscal quarter and the lack of available information in this time frame. The Company does not believe that the impact of the MUZO acquisition will be material, and it will include the pro forma information for MUZO with the financial statements for the year ended May 31, 2004. The pro forma results are not necessarily indicative of what would have occurred if the DoIEx acquisition had been in effect for the periods presented and they are not intended to be a projection of future results. The pro forma information includes the expense for amortization of intangible assets resulting from the DoIEx acquisition and interest expense related to financing costs but does not reflect synergies or operating cost reductions that may be achieved from the combined operations.

	Three months ended	Nine months ended	
	February 28, 2003	February 29, 2004	February 28, 2003
	(in thousands, except per share data)		
Revenues	\$ 141,173	\$ 484,634	\$ 435,897
Net income	12,899	49,536	46,776
Diluted earnings per share	0.34	1.27	1.23

NOTE 4—RESTRUCTURING

Fiscal 2003 Restructuring Activities

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 Company incurred restructuring charges associated with these activities in the fourth quarter of fiscal 2003 and the first and second quarters of fiscal 2004 as follows:

	Total Expected Charge	Cumulative Charges Incurred as of February 29, 2004
	(in thousands)	
One-time employee termination benefits	\$ 4,400	\$ 3,931
Contract termination costs	3,200	2,531
Other associated costs	600	424
Subtotal	\$ 8,200	\$ 6,886
Reversal pertaining to the 2002 restructuring activities (see below)		(526)
Total		\$ 6,360

The charges incurred for the nine months ended February 29, 2004 are reflected in the accompanying Unaudited Consolidated Statement of Income under the caption "Restructuring."

Table of Contents

As of February 29, 2004, \$3.4 million of the fiscal 2003 restructuring activities remained accrued as a current liability. The following is a reconciliation of the accrual associated with these activities.

	Liability Balance at May 31, 2003	Costs Incurred During Fiscal 2004	Costs Paid During Fiscal 2004	Liability Balance at February 29, 2004
			(in thousands)	
One-time employee termination benefits	\$ 1,657	\$ 2,274	\$ 2,781	\$ 1,150
Contract termination costs	—	2,531	291	2,240
Other associated costs	—	424	424	—
Total	\$ 1,657	\$ 5,229	\$ 3,496	\$ 3,390

Fiscal 2002 Restructuring Activities

During the fourth quarter of fiscal 2002 the Company completed plans for the closing of four locations including associated management and staff reductions. Total charges of approximately \$11.0 million for the year ended May 31, 2002 were categorized as follows:

	Total	Cash	Non-cash
		(in thousands)	
Closed or planned closings of facilities	\$ 1,512	\$ 910	\$ 602
Severance and related costs	6,715	5,884	831
Other costs	2,766	—	2,766
Totals	\$ 10,993	\$ 6,794	\$ 4,199

The charges related to facilities representing locations that were either already closed or had 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 included 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 continued to be charged to operating expenses prior to actually vacating the specific facilities.

The severance and related costs arose from the Company's actions to reduce personnel in areas of redundant operations and activities. These operations related to the facility consolidation and integration of acquisitions. 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 reflected 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 related 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.

Table of Contents

The cash items were accrued at the time the charges were incurred. The reversals during the nine months ended February 29, 2004 were due to changes in estimates described above. As of February 29, 2004, \$0.6 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:

	Original Total	Payments to Date	Reversals	Remaining Liability
			(in thousands)	
Closed or planned closings of facilities	\$ 910	\$ 638	\$ (270)	\$ 2
Severance and related costs	5,884	5,044	(256)	584
Totals	\$ 6,794	\$ 5,682	\$ (526)	\$ 586

NOTE 5—COMMITMENTS AND CONTINGENCIES

The Company currently processes 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. The Company's revenue from this relationship represents less than 1% of its 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 while the court-ordered stay remains in effect. 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 sales 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. The Company maintains a reserve for such reversed charges, as described under *Reserve for operating losses* in Note 1 in the Notes to Unaudited Consolidated Financial Statements, but has not made any specific adjustment to that allowance as a result of the Air Canada situation. According to the Twenty-Second Report of the Monitor dated March 24, 2004, deferred ticket revenues for Air Canada as of February 29, 2004, representing advance ticket sales collected, were approximately \$504 million (Canadian), or \$377 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 exceeds twice the level of VISA chargebacks and credit losses experienced during the one-year period ended October 31, 1999. On March 20, 2004, this reimbursement obligation expired. According to a March 2003 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. As a result of the expiration of CIBC's reimbursement obligation, the Company estimates that its maximum potential chargeback liability exposure relative to Air Canada as of March 20, 2004 will be \$152-\$162 million (Canadian), or \$114-\$121 million (U.S.), based on exchange rates in existence on February 29, 2004. This estimate is based on the information contained in the Air Canada affidavit and the information contained in Twenty-Second Report of the Monitor.

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

[Table of Contents](#)

NOTE 6—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow disclosures for the nine months ended February 29, 2004 and February 28, 2003 are as follows:

	Nine Months Ended	
	February 29, 2004	February 28, 2003
	(in thousands)	
Supplemental cash flow information:		
Income taxes paid, net of refunds	\$ 26,683	\$ 10,649
Interest paid	2,069	2,116
Supplemental non-cash investing and financing activities:		
Common stock issued in consideration for acquisition (231,662 shares)	7,844	—
Notes payable issued in consideration for acquisition	114,229	—

[Table of Contents](#)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For an understanding of the significant factors that influenced our results, the following discussion should be read in conjunction with our unaudited consolidated financial statements and related notes appearing elsewhere in this report. This management's discussion and analysis should also be read in conjunction with the management's discussion and analysis and consolidated financial statements included in our Form 10-K for the fiscal year ended May 31, 2003.

General

We are a leading electronic transaction processor providing a wide range of end-to-end solutions to merchants, corporations, financial institutions, consumers and government agencies located throughout the United States, Canada, Latin America and Europe. Our products and services are marketed through a variety of distinct sales channels that include a large, dedicated direct sales force, retail outlets, independent sales organizations, or ISOs, independent sales representatives, an internal telesales group, trade associations, branch outlets, 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 money transfer offerings.

Executive Overview

For the three months ended February 29, 2004, our revenue grew 30% to \$162.6 million, primarily due to the impact of our recent acquisitions and growth in our domestic direct merchant services offering. Excluding the impact from our DolEx and MUZO acquisitions, third quarter revenue grew 16% over the comparable period of fiscal 2003. We also achieved operating margin improvement of 120 basis points, to 18.7%, as a result of gaining greater economies of scale and continued cost containment programs. Our revenue growth and margin improvements resulted in a 36% net income improvement, to \$16.5 million and 31% diluted earnings per share improvement to \$0.42 per share for the three months ended February 29, 2004.

On February 18, 2004, we acquired 52.6% of the outstanding voting shares of MUZO, a.s. from Komerční banka, a.s., or KB, for \$34.7 million in cash. Pursuant to Czech law, we expect to announce a public tender offer by the end of April 2004 for the remaining shares of MUZO at approximately the same value per share that was paid to KB. We believe that MUZO is the largest indirect payment processor in the Czech Republic holding a market share of approximately 50%. Based in Prague, MUZO employs approximately 240 employees and has served as an indirect processor for financial institutions since 1992. MUZO offers a comprehensive package of payment services including credit and debit card transaction processing services, sales, installation and management of ATMs and POS devices, and card personalization.

Finally, in the third quarter, we commenced the relocation of our corporate headquarters. The purpose of the relocation was to comply with an IRS requirement to terminate the facility lease with NDC Health, formerly known as National Data Corporation, which was our landlord and former parent company. We expect the relocation will help to solidify the tax-free nature of the spin-off from National Data Corporation which occurred on January 31, 2001.

Components of Income Statement

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

Cost of service consists primarily of the cost of operational related personnel, including those who monitor our transaction processing systems and settlement; transaction processing systems, including third-party services such as the costs of settlement channels in consumer-to-consumer money transfer services; network telecommunications capability, depreciation and occupancy costs associated with the facilities performing these functions, and provisions for operating losses.

Table of Contents

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 management, commissions to independent contractors and ISOs, advertising costs, other selling expenses, 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

In the three months ended February 29, 2004, revenue increased \$38.0 million or 30% to \$162.6 million from \$124.6 million in the prior year's comparable period. In the nine months ended February 29, 2004, revenue increased \$65.7 million or 17% to \$447.5 million from \$381.8 million in the prior year's comparable period. We attribute this revenue growth primarily to acquisitions closed in fiscal 2004 and increases in our domestic direct merchant services offering. We intend to continue to focus on growing our domestic and international 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. We expect fiscal 2004 revenue of \$610 million to \$620 million, reflecting growth of 18% to 20%, compared to \$516 million in fiscal 2003.

The Company's service offering revenues from external customers are as follows (*dollars in millions*):

	Three Months Ended			Nine Months Ended		
	February 29, 2004	February 28, 2003	% Change	February 29, 2004	February 28, 2003	% Change
Merchant services	\$ 141.7	\$ 121.8	16%	\$ 416.8	\$ 372.9	12%
Money transfer	20.9	2.8	660%	30.7	8.9	246%
	<u>\$ 162.6</u>	<u>\$ 124.6</u>	<u>30%</u>	<u>\$ 447.5</u>	<u>\$ 381.8</u>	<u>17%</u>

Merchant services

Our merchant services offering increased 16% and 12% in the three and nine months ended February 29, 2004, respectively. This growth includes \$1.0 million in revenue from the MUZO acquisition, which closed on February 18, 2004.

We have continued growth in our domestic direct merchant channel by continuing to sign mid-market merchants in various vertical markets to maintain our diversification. The increase in revenue reflects high-teen transaction growth in our domestic direct card merchant channel, primarily driven by increases in our ISO channel. Our domestic average dollar value of transaction, or average ticket, remained stable and we experienced an increase in our domestic average discount revenue per dollar value volume, or spread, both for the three and nine month periods ended February 29, 2004 compared to the same periods in the prior year.

Our Canadian transactions processed for the three and nine month periods ended February 29, 2004 grew in the low- to mid-single digits compared to the same periods in the prior year. This reflects the continued impact of the recent removal from our portfolio of certain lower margin, higher risk merchants, such as airlines. The average ticket in Canada declined in the three and nine month periods ended February 29, 2004 compared to the same periods in the prior year. The declines in average ticket are primarily due to the recent mix of merchant signings, such as the addition of petroleum and grocery retailers, and the strategic removal of the certain lower margin, higher risk merchants. The decline in Canadian revenue was offset by a stronger year-over-year Canadian currency exchange rate.

These revenue growth factors were partially offset by continued and expected low-teen declines in our domestic indirect channel. These declines are attributed to the industry consolidation of financial institutions and competitive pricing pressures.

Table of Contents

Money transfer

Our revenue growth in fiscal 2004 includes an additional \$17.3 million and \$21.1 million for the three and nine months ended February 29, 2004, respectively, relating to our DolEx acquisition completed on November 12, 2003. Excluding the impact of the DolEx acquisition, our money transfer offering revenue increased modestly due to non-recurring revenue associated with the delivery of a significant project to a customer.

The consumer-to-consumer money transfer service offering revenue is primarily driven by transaction levels and unit pricing. Consumer-to-consumer money transfer transactions for the quarter grew in excess of 20%, primarily due to continued industry growth, additional U.S. branch locations, and a more competitive unit pricing strategy compared to the prior year quarter. Our business strategy is to competitively price our money transfer services, which we believe will further expand our customer base and increase our market share. Further, our use of fixed-cost employees rather than variable-cost agents enhances this strategy, as higher transaction levels will provide significant future leverage.

Cost of service increased by \$9.1 million or 15% from \$62.7 million in the three months ended February 28, 2003 to \$71.8 million in the three months ended February 29, 2004. As a percentage of revenue, cost of service decreased to 44% in the three months ended February 29, 2004 from 50% in the prior year's comparable period.

Cost of service increased by \$7.2 million or 4% from \$194.0 million in the nine months ended February 28, 2003 to \$201.2 million in the nine months ended February 29, 2004. As a percentage of revenue, cost of service decreased to 45% in the nine months ended February 29, 2004 from 51% in the prior year's comparable period.

This decrease in cost of service as a percentage of revenue is primarily due to the integration of our acquisitions, other cost reduction initiatives, and the leveraging of our fixed costs with revenues growing at a faster rate than cost of service operating expenses. The increase in the cost of service expense is primarily attributable to the operating expenses and acquired intangible asset amortization through our recent acquisitions.

Sales, general and administrative expenses increased by \$20.3 million or 50% to \$60.4 million in the three months ended February 29, 2004 from \$40.1 million in the prior year's comparable period. As a percentage of revenue, these expenses increased to 37% for the three months ended February 29, 2004 compared to 32% for the three months ended February 28, 2003.

Sales, general and administrative expenses increased by \$40.9 million or 35% to \$157.8 million in the nine months ended February 29, 2004 from \$116.9 million in the prior year's comparable period. As a percentage of revenue, these expenses increased to 35% for the nine months ended February 29, 2004 compared to 31% for the nine months ended February 28, 2003.

The increase in sales, general and administrative expenses and the increase in such expenses as a percentage of revenue is primarily due to growth in commission payments to ISOs resulting from the increased revenue in this sales channel. In addition, these increases are attributed to ongoing investments made in our direct sales channels, business development costs, and additional sales, general and administrative expenses inherited in connection with our recent acquisitions.

During the fourth quarter of fiscal 2003, we announced 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 in 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.

Table of Contents

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. For the nine month period ended February 29, 2004, we recognized net restructuring charges of \$4.7 million. We expect additional restructuring charges to be recognized in our fourth quarter of fiscal 2004. See Note 4 in the "Notes to Unaudited Consolidated Financial Statements" for additional information.

Operating income increased \$8.6 million or 40% to \$30.4 million for the third quarter of fiscal 2004 compared to \$21.8 million for the same period in fiscal 2003. This resulted in an operating margin of 18.7% for the three months ended February 29, 2004 compared to 17.5% for the three months ended February 28, 2003.

Operating income increased \$12.9 million or 18% to \$83.7 million for the nine months ended February 29, 2004 compared to \$70.9 million in the prior year's comparable period. This resulted in an operating margin of 18.7% for the nine months ended February 29, 2004 compared to 18.6% for the nine months ended February 28, 2003. This increase in operating income and related margin includes restructuring charges of \$4.7 million or 1.1% of revenue in the nine months ended February 29, 2004.

The changes in operating income and operating margins are primarily due to the revenue growth factors and benefits from acquisition integration and other cost factors described further above. These improvements are partially offset by the impact of restructuring charges. Excluding the impact of restructuring charges, we anticipate an operating income margin of 19.0% to 19.5% for fiscal 2004.

Net income increased \$4.4 million or 36% to \$16.5 million in the three months ended February 29, 2004 from \$12.1 million in the prior year's comparable period, resulting in a \$0.10 increase in diluted earnings per share to \$0.42 in the three months ended February 29, 2004 from \$0.32 in the prior year's comparable period.

Net income increased \$6.9 million or 17% to \$47.2 million in the nine months ended February 29, 2004 from \$40.3 million in the prior year's comparable period, resulting in a \$0.15 increase in diluted earnings per share to \$1.22 in the nine months ended February 29, 2004 from \$1.07 in the prior year's comparable period. This increase in net income and diluted earnings per share includes restructuring charges of \$2.9 million, net of tax, or \$0.07 diluted earnings per share, for the nine months ended February 29, 2004. Excluding the impact of restructuring charges, we expect diluted earnings per share to be \$1.71 to \$1.74 for fiscal 2004.

Liquidity and Capital Resources

Cash flow generated from operations provides us with a significant source of liquidity to meet our needs. At February 29, 2004, we had cash and cash equivalents totaling \$85.9 million. This cash and cash equivalents balance includes approximately \$32 million available to fund the upcoming MUZO public tender offer, which is a prerequisite under Czech law in order for the tender process to commence.

Net cash provided by operating activities increased \$15.9 million, or 30%, to \$68.8 million for the nine months ended February 29, 2004 from \$52.9 million for the comparable period in the prior year. The increase in cash flow from operations was due to the increase in net income and the timing of settlement processing and was partially offset by the change in prepaid expenses resulting from our prepayment to a major vendor in exchange for a discount.

Net cash used in investing activities increased \$96.1 million to \$110.0 million for the nine months ended February 29, 2004 from \$13.9 million for the comparable period in the prior year due to the cash paid for the DolEx and MUZO acquisitions. On November 12, 2003, we completed our DolEx acquisition at a purchase price of approximately \$193 million, through a combination of \$62 million in cash, net of acquired cash of \$9 million and the issuance of \$114 million in promissory notes payable to the sellers and the issuance of approximately 232,000 shares of our common stock with an approximate fair value of \$8 million. On December 1,

Table of Contents

2003, we repaid the notes in full using our U.S. credit facility. On February 18, 2004, we completed our acquisition of 52.6% of MUZO's outstanding shares at a purchase price of approximately \$33 million in cash, net of cash acquired of \$1 million. This amount plus the amount necessary to acquire the minority shareholder interest through the public tender offer was financed using our U.S. credit facility.

Capital expenditures increased \$2.3 million from \$12.7 million for the nine months ended February 28, 2003 to \$15.0 million for the comparable period in the current fiscal year. In fiscal 2004, we expect approximately \$20 to \$25 million in total capital spending, primarily related to the acquisition of Canadian merchant terminals, software, systems infrastructure, product development, headquarters relocation, and office consolidations.

Net cash provided by financing activities increased \$117.9 million to \$87.6 million for the nine months ended February 29, 2004 from \$30.3 million net cash used in financing activities for the comparable period in the prior fiscal year. This increase was primarily due to our borrowings on our U.S. credit facility to fund our recent acquisitions, net of the payoff of the \$114 million in notes payable to the sellers of DolEx. The increase in financing activities was also due to our net borrowings on our Canadian line of credit which is restricted for merchant funding. These borrowings increased primarily due to increased consumer credit card spending and the timing of the quarter-end on a weekend. This reflects the net borrowings required to provide Canadian VISA merchants with same-day value, which is standard industry practice in Canada. In fiscal 2003, we repaid our outstanding balance on our U.S. credit facility of \$22 million.

We believe that our current level of cash and borrowing capacity under our committed lines of credit described below, together with future cash flows from operations, are sufficient to meet the needs of our existing operations and planned requirements for the foreseeable future. As of February 29, 2004, we 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 service. If undertaken, this development would further increase our capital expenditures above historical levels. In December 2003, we entered into a lease commitment and a plan to relocate our headquarters location in Atlanta, Georgia. As of March 31, 2004, we substantially completed the relocation of all functions, except our data center. We expect to relocate our data center by September 2005. We do not believe this relocation will have a significant impact on the results of operations and financial condition.

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 continue to make capital investments in our business and third, to pursue acquisitions that meet our growth strategies.

Credit Facilities

On November 25, 2003, we entered into a three-year, \$350 million revolving credit facility agreement with a syndicate of U.S. banks, which we refer to as our U.S. credit facility. The credit agreement contains certain financial and non-financial covenants and events of default customary for financings of this nature. The facility expires in November 2006 and has a variable interest rate based on a market short-term floating rate plus a margin that varies according to our leverage position.

In addition, the facility allows us to expand the facility size to \$500 million by requesting additional commitments from existing or new lenders. We plan to use the credit facility to fund future strategic acquisitions and to provide a source of working capital for general corporate purposes. This agreement replaces our prior credit facilities with U.S. banks, which had an aggregate capacity of \$150 million. As of February 29, 2004, there was \$161 million outstanding on our U.S. credit facility.

We also have a credit facility from CIBC that provides a line of credit up to \$175 million (Canadian), or approximately \$131 million (U.S.) based on exchange rates existing on February 29, 2004, 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 credit facility 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 U.S. credit facility. This credit facility, as amended, had a term of 364 days expiring

Table of Contents

on December 9, 2003, and has been subsequently extended until April 30, 2004. We expect to receive future monthly extensions until we complete the syndication for a new Canadian facility.

The third amendment of the CIBC credit facility, executed in December 2002, provides 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, a merchants' deposits are backdated to the date of the applicable sales transaction. In order to continue offering "same day value" to our merchants in Canada after the execution of the third amendment to the CIBC credit facility, we have been required to draw on our CIBC credit facility to pay merchants in advance of the date we receive the corresponding funds from VISA Canada/International resulting in a net merchant processing receivable. In contrast, under the terms of the CIBC credit facility prior to the execution of the third amendment, CIBC credited the merchants' deposit accounts for their sales transactions on the day of the transaction and we reimbursed CIBC when we received the corresponding funds from VISA Canada/International without incurring a short term loan. At February 29, 2004 and May 31, 2003, there was \$110.4 million and \$46.3 million (Canadian), or approximately \$82.7 million and \$33.9 million (U.S.), respectively, outstanding on this credit facility, based on then existing exchange rates. The amount borrowed is restricted in use to pay merchants and is generally received from VISA Canada/International on the following day.

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. Investors are cautioned that 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 and are made pursuant to the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a number of risks and uncertainties, are predictive in nature, and depend upon or refer to future events or conditions. You can sometimes identify forward-looking statements by our use of the words "believes," "anticipates," "expects," "intends," "plans" and similar expressions. Actual events or results might differ materially from those expressed or forecasted in these forward-looking statements.

Although we believe that the plans and expectations reflected in or suggested by our forward-looking statements are reasonable, those statements are based on a number of assumptions, estimates, projections or plans that are inherently subject to significant risks, uncertainties, and contingencies that are subject to change. Accordingly, we cannot guarantee you that our plans and expectations will be achieved. Our actual revenues, revenue growth 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. 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, those set forth from time to time in our analyst calls and discussions 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. You are advised, however, to consult any further disclosures we make in our reports filed with the Securities and Exchange Commission and in our press releases.

Where to Find More Information

We file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission. 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 are also available by writing or calling us using the address or phone number on the cover of this Form 10-Q.

Table of Contents

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, Inc. 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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to changes in interest rates on our cash investments and debt. We invest our excess cash in highly liquid short-term investments. These investments are not held for trading or other speculative purposes. Interest rates on our lines of credit are based on market rates and fluctuate accordingly. We mitigate any interest rate risk through the movement of funds between our domestic and foreign banks. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes and believe the market risk arising from investment instruments and debt to be minimal.

Although the majority of our operations are transacted in U.S. dollars, some of our operations are transacted in currencies of Canada, Latin American countries, and to a lesser extent, the Czech Republic and the United Kingdom. Consequently, a portion of our revenues and expenses may be affected by fluctuations in foreign currency exchange rates. We are also affected by fluctuations in exchange rates on assets and liabilities related to our foreign operations. We have not hedged our translation risk on foreign currency exposure and based on our sensitivity analyses, we do not expect any material foreign exchange rate risk from changes in foreign currency exchange rates.

Item 4. Controls and Procedures

We concluded an evaluation of the effectiveness of our disclosure controls and procedures as of the quarterly period ended February 29, 2004. 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 of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based on our evaluation, as of the end of the quarterly period ended February 29, 2004, our management, including our principal executive officer and our principal financial officer, has concluded that the information required to be disclosed in our reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management in a manner that allows timely decisions regarding required disclosure.

There have been no significant changes in our internal procedures that could significantly affect these controls during the third quarter of fiscal 2004.

[Table of Contents](#)

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to a number of claims and lawsuits incidental to its business. In the opinion of management, the ultimate outcome of such matters, in the aggregate, will not have a material adverse impact on the Company's financial position, liquidity or results of operations. For additional information, refer to Note 5 of the "Notes to Unaudited Consolidated Financial Statements—Commitments and Contingencies."

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

- 10.1 Headquarters Sublease
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of CEO
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of CFO
- 32.1 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

(b) Reports on Form 8-K.

On January 23, 2004, the Company filed an Amended Current Report on Form 8-K/A to disclose, pursuant to Item 5 and Item 7 on Form 8-K, the completion of the acquisition of Latin America Money Services, LLC and included the following financial information:

(a) Financial statements of businesses acquired.

- (i) Audited Combined Financial Statements as of and for the years ended December 31, 2002 and 2001.
- (ii) Unaudited Combined Financial Statements as of September 30, 2003 and for the nine months ended September 30, 2003 and 2002.

(b) Pro forma financial information.

- (i) Unaudited Pro Forma Combined Financial Statements of income and notes thereto for the year ended May 31, 2003 and the six months ended November 30, 2003.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Global Payments Inc.
(Registrant)

Date: April 1, 2004

By: /s/ James G. Kelly

James G. Kelly
Chief Financial Officer
(Principal Financial Officer and
Chief Accounting Officer)

SUBLEASE

THE COCA-COLA COMPANY,
a Delaware corporation

Sublandlord

and

GLOBAL PAYMENTS INC.,
a Georgia corporation

Subtenant

Premises in
10 Glenlake North Tower
Atlanta, Georgia 30328

TABLE OF CONTENTS

1.	MASTER LEASE TERMS AND CONDITIONS, USE AND RESTRICTIONS ON USE.	1
2.	TERM.	2
3.	RENT.	3
4.	RENT ADJUSTMENTS.	4
5.	SECURITY DEPOSIT.	5
6.	ALTERATIONS.	5
7.	REPAIR.	7
8.	LIENS.	7
9.	ASSIGNMENT AND SUBLETTING.	7
10.	INDEMNIFICATION.	8
11.	INSURANCE.	8
12.	WAIVER OF SUBROGATION.	9
13.	SERVICES AND UTILITIES.	9
14.	HOLDING OVER.	11
15.	SUBORDINATION.	11
16.	RULES AND REGULATIONS.	11
17.	SUBLANDLORD'S AGREEMENT TO NOT EXERCISE ITS CANCELLATION RIGHT.	12
18.	DEFAULT.	12
19.	REMEDIES.	13
20.	SUBTENANT'S BANKRUPTCY OR INSOLVENCY.	16
21.	QUIET ENJOYMENT.	17
22.	CASUALTY DAMAGE AND EMINENT DOMAIN	17
23.	NOTICES.	17
24.	TAXES PAYABLE BY SUBTENANT.	17
25.	DEFINED TERMS AND HEADINGS.	18
26.	COMMISSIONS.	18
27.	TIME AND APPLICABLE LAW.	18
28.	SUCCESSORS AND ASSIGNS.	18
29.	ENTIRE AGREEMENT.	18
30.	ATTORNEYS' FEES.	19
31.	SPECIAL STIPULATIONS.	19

EXHIBITS

- EXHIBIT A Premises, including floor plans
- EXHIBIT B Copy of Master Lease
- EXHIBIT C Form of Subordination, Non-Disturbance and Attornment Agreement
- EXHIBIT D Rules and Regulations
- EXHIBIT E Form of Master Landlord Consent
- EXHIBIT A-Floor Plans of Subleased Premises as of Lease Reference Date
- EXHIBIT E-1 - Specifications with regard to use of portion of Rooftop Premises
- EXHIBIT E-2 - Option to Enter into New Lease
- EXHIBIT E-3 - Janitorial Specifications and Additional Service Level Agreement
- EXHIBIT E-4 – Subtenant’s Security Plan
- EXHIBIT F Rent
- EXHIBIT G Special Stipulations
- EXHIBIT G-1 - Furniture and Equipment within the First Refusal Space
- EXHIBIT G-2 - Furniture and Equipment having a value of \$146,850.00
- EXHIBIT G-3 - Furniture and Equipment having a value of \$161,150.00
- EXHIBIT H Rooftop Premises
- EXHIBIT I Reserved Parking Spaces

KEY PROVISIONS SUMMARY

BUILDING: 10 Glenlake North Tower
Atlanta, Georgia 30328

SUBLANDLORD: The Coca-Cola Company,
a Delaware corporation

SUBLANDLORD'S ADDRESS: One Coca-Cola Plaza
Atlanta, Georgia 30313
Attention: Ms. Lynne R. O'Brien, Director Corporate Real Estate

With copies to:

The Coca-Cola Company
One Coca-Cola Plaza
Atlanta, Georgia 30313
Attention: Senior Staff Counsel, Legal Division

and

Holt Ney Zatzoff & Wasserman, LLP
100 Galleria Parkway, Suite 600
Atlanta, Georgia 30339
Attention: Sanford H. Zatzoff, Esq.

and

Advantis Real Estate Services Company
3455 Peachtree Road, Suite 400
Atlanta, Georgia 30326
Attention: Scott Nelson

LEASE REFERENCE DATE: December 23, 2003

SUBTENANT: Global Payments Inc.,
a Georgia corporation

SUBTENANT'S ADDRESS:

(a) As of beginning of Term: Suite 101, 10 Glenlake Parkway
North Tower.
Atlanta, Georgia 30328

(b) Prior to beginning of Term: Four Corporate Square
Atlanta, Georgia 30329

PREMISES:	Floors 1, 2, 7, 8, 9 and 10
PREMISES RENTABLE AREA:	146,175 rentable square feet
SCHEDULED COMMENCEMENT DATE:	March 1, 2004
TERMINATION DATE:	February 28, 2011
TERM OF LEASE:	Seven (7) years, zero (0) months and zero (0) days beginning on the Commencement Date and ending on the Termination Date (unless sooner terminated pursuant to the Sublease)
ANNUAL RENT:	See Exhibit "F"
MONTHLY INSTALLMENT OF RENT:	See Exhibit "F"
BASE YEAR (OPERATING EXPENSES):	2004 and agreed to be \$723,855.34
BASE YEAR (TAXES):	2004
SUBTENANT'S PROPORTIONATE SHARE:	59.1%
SECURITY DEPOSIT:	Waived
REAL ESTATE BROKER : DUE COMMISSION	Advantis Real Estate Services Company for Sublandlord; Icon Commercial Interests, LLC for Subtenant
MASTER LANDLORD:	Highwoods DLF 97/26 DLF 99/32, L.P., a Delaware limited partnership
MASTER PROPERTY:	The entire 10 Glenlake North Tower Office Building consisting of 247,360 rentable square feet located on Floors 1 through 10, inclusive
MASTER LEASE:	Office Lease dated October 31, 2000, by and between Master Landlord, as Landlord, and Sublandlord, as Tenant, as amended by First Amendment to Office Lease between the same parties dated May 31, 2001, and as further amended by Second Amendment to Office Lease dated on or about the Lease Reference Date

This Key Provisions Summary is incorporated into and made a part of the Sublease. In the event of any conflict between any Key Provisions Summary information and the Sublease, the Sublease shall control. This Sublease includes Exhibits A through I, all of which are made a part of this Sublease.

IN WITNESS WHEREOF, Sublandlord and Subtenant have caused this Key Provisions Summary to the Sublease to be duly executed, sealed and delivered the day and year first above written.

SUBLANDLORD:

THE COCA-COLA COMPANY, a Delaware corporation

By: /s/ David M. Taggart

Name: David M. Taggart
Title: Vice President and Treasurer

(CORPORATE SEAL)

Dated: December 29, 2003

SUBTENANT:

GLOBAL PAYMENTS INC., a Georgia corporation

By: /s/ Suellen P. Tornay

Name: Suellen P. Tornay
Title: General Counsel

(CORPORATE SEAL)

Dated: December 24, 2003

SUBLEASE

THIS SUBLEASE (hereinafter referred to as the "Sublease") is made and entered into between Sublandlord and Subtenant as of the Lease Reference Date. Pursuant to this Sublease, Sublandlord leases to Subtenant and Subtenant leases from Sublandlord the Premises in the Building as set forth and described on the Key Provisions Summary. The Key Provisions Summary, including all terms defined thereon, is incorporated as part of this Sublease.

1. MASTER LEASE TERMS AND CONDITIONS, USE AND RESTRICTIONS ON USE.

1.1 Sublandlord leases from Master Landlord pursuant to the Master Lease the Master Property. This Sublease evidences the sublease of the Premises by Subtenant from Sublandlord. This Sublease is made upon, and shall be subject and subordinate to, all of the terms, covenants and conditions of the Master Lease. Concurrently with the execution of this Sublease, the Master Landlord, Sublandlord and Subtenant are executing a Consent Letter respecting this Sublease in the form attached hereto as Exhibit E. Subtenant hereby covenants and agrees (a) to assume, faithfully perform, observe and be bound by all of the terms, covenants and conditions required to be performed by or on the part of the "Tenant" under the Master Lease related to the Premises, all of which shall constitute terms of this Sublease, except to the extent such terms are inconsistent with the terms of this Sublease (including the payment of rent due under the Master Lease which shall be paid by Sublandlord and the terms expressed in the Consent Letter to the extent the Consent Letter conflicts with any of the terms, covenants or conditions in the Master Lease), in which event the terms of this Sublease (including, without limitation, the terms of the Consent Letter) shall prevail; (b) to indemnify, protect, defend and hold Sublandlord harmless from and against any and all liabilities, penalties, demands and other costs and expenses (including, without limitation, reasonable attorneys' fees) incurred under or pursuant to the Master Lease (as modified by the Consent Letter) by reason of Subtenant's failure to fully comply with any and all of the duties, covenants and obligations of Sublandlord under and pursuant to the Master Lease (as modified by the Consent Letter) related to the Premises which are required to be performed by the "Tenant" pursuant to the terms of the Master Lease (as modified by the Consent Letter) except for the payment of rent due under the Master Lease which shall be paid by Sublandlord; (c) that any default by Master Landlord shall not affect this Sublease or waive or defer the performance of any of Subtenant's obligations hereunder; (d) that Subtenant shall not do or cause to be done or suffer or permit any act to be done which would or might cause the Master Lease, or the rights of Sublandlord as "Tenant" under the Master Lease to be endangered, cancelled, terminated, forfeited or surrendered, or which would or might cause Sublandlord to be in default thereunder or liable for any damage, claim or penalty; and (e) to obtain Sublandlord's consent whenever Master Landlord's consent is needed under the Master Lease unless such consent from the Master Landlord has already been obtained as evidenced in the Consent Letter. If there is any conflict between the provisions of this Sublease and the provisions of the Master Lease which would permit Subtenant to do or cause to be done or suffer or permit anything to be

Initial: Sublandlord _____

Initial: Subtenant _____

done which is prohibited by the Master Lease, then the provisions of the Master Lease shall govern and prevail, subject to the terms and provisions of the Consent Letter. Sublandlord does, however, agree to assist Subtenant in securing the performance of any responsibility of Master Landlord under the terms of the Master Lease, when requested to do so by Subtenant. Sublandlord shall maintain the Master Lease in full force and effect during the Sublease Term provided Sublandlord shall not be liable to Subtenant for any early termination of or default under the Master Lease which is not due to the gross negligence or willful misconduct of Sublandlord.

1.2 The Premises are to be used solely for general office purposes except that Sublandlord agrees that Subtenant shall be permitted to perform data center operations and operate its data center on the first floor of the Building. Subtenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure, annoy, or disturb them or allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose. Subtenant shall not do, permit or suffer in, on, or about the Premises the commission of any waste, provided that Subtenant may gather and dispose of trash and waste in the ordinary course of business. Subtenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the Premises and its occupancy and shall promptly comply with all governmental orders and directions for the correction, prevention and abatement of any violations in or upon, or in connection with, the Premises, all at Subtenant's sole expense. Subtenant shall not do or permit anything to be done on or about the Premises or bring or keep anything into the Premises which will in any way increase the rate of, invalidate or prevent the procuring of any insurance protecting against loss or damage to the Building or any of its contents by fire or other casualty or against liability for damage to property or injury to persons in or about the Building or any part thereof.

2. TERM.

2.1 Although the Term of this Sublease shall begin on the Scheduled Commencement Date, (i) Subtenant shall have the right to access the Premises on and after January 2, 2004 for the purpose of making improvements to the Premises, installation of equipment, reconfiguration of furniture, phone and data cabling work and related matters, and in the event that Sublandlord does not allow Subtenant to have access to the Premises no later than January 2, 2004, Subtenant shall receive an additional one-half day of free rent for each day after January 1, 2004 that such access is not provided to Subtenant, such free rent to be applicable with respect to each floor of the Premises for which such access is not made available; and (ii) although there will be no application of free rent as mentioned in item (i) above, Sublandlord will use reasonable efforts so that Subtenant will have access to the following floors of the Premises on the following dates in order that Subtenant may begin any of its tenant improvement work, installation of equipment, reconfiguration of furniture, phone and data cabling work and related matters:

<u>Floor</u>	<u>Date</u>
1	Upon Sublease execution
2	Upon Sublease execution
7	Upon Sublease execution
8	Upon Sublease execution
9	Upon Sublease execution
10	Upon Sublease execution

Each floor of the Premises will be delivered by Sublandlord to Subtenant in "broom-clean" condition, but otherwise Sublandlord shall have no obligation with respect to preparation of the Premises for Subtenant. Subtenant also agrees that in the event Sublandlord is not able to deliver the various floors of the Premises as set forth in the above chart, Sublandlord shall not be liable for any damages resulting from such inability to make an early delivery of the Premises.

2.2 Even though Sublandlord has agreed to allow Subtenant to have access to the Premises prior to the Scheduled Commencement Date as set forth in Section 2.1, such occupancy shall be subject to all the provisions of this Sublease and shall not advance the Termination Date.

3. RENT.

3.1 Subtenant agrees to pay to Sublandlord the Annual Rent in effect from time to time by paying the Monthly Installment of Rent then in effect on or before the first day of each full calendar month during the Term, except that the Monthly Installment of Annual Rent applicable to the first month for which rent is due hereunder (that is, after expiration of the free rent period) shall be paid upon the execution of this Sublease, and Subtenant shall receive credit in accordance with Section 3.B. of Exhibit G of this Sublease for the One Hundred Thousand and No/100 Dollars (\$100,000.00) advance payment which Subtenant has previously paid to Sublandlord. The Monthly Installment of Annual Rent in effect at any time shall be one-twelfth of the Annual Rent in effect at such time. Rent for any period during the Term which is less than a full month shall be a prorated portion of the Monthly Installment of Rent based upon a thirty (30) day month. Rent shall be paid to Sublandlord, without deduction or offset and without notice or demand, at the Sublandlord's address, as set forth on the Key Provisions Summary, or to such other person or at such other place as Sublandlord may from time to time designate in writing.

3.2 Subtenant recognizes that late payment of any rent or other sum due under this Sublease will result in administrative expense to Sublandlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Subtenant therefore agrees that if rent or any other sum is not paid when due and payable pursuant to this Sublease, a late charge shall be due in an amount equal to two percent (2%) per month of the unpaid rent or other payment. The amount of the late charge to be paid by Subtenant shall be reassessed and added to Subtenant's obligation for each successive monthly period until paid. The provisions of this Section 3.2 in no way relieve Subtenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Section 3.2 in any way affect Sublandlord's remedies pursuant to Article 19 of this Sublease in the event said rent or other

payment is unpaid after date due. The foregoing notwithstanding, Sublandlord will waive such late charge if the amount not paid when due is paid by Subtenant within five (5) days after written notice from Sublandlord that such payment is past due, provided, however, that the waiver of the late charge will be applicable only to the first two (2) late payments in any consecutive twelve (12) month period.

4. RENT ADJUSTMENTS.

4.1 For the purpose of this Article 4, the following terms are defined as follows:

4.1.1 Lease Year: Each calendar year falling partly or wholly within the Term.

4.1.2 Operating Expenses: All items defined as "Operating Expenses", including "Project Expenses" in Lease Addendum No. 1 and Lease Addendum No. 1.1 of the Master Lease except that (i) paragraph 8 of Lease Addendum No. 1 of the Master Lease shall have no application as there is to be no limit in this Sublease on the annual amount of increase in Operating Expenses except to the extent that Subtenant's Proportionate Share of Operating Expenses are based on the Operating Expenses charged to Sublandlord by Master Landlord; and (ii) as evidenced in the Consent Letter, Subtenant will install at its sole cost and expense a submeter to meter the electric usage for the first floor data center operations which electric usage charge will be paid directly by Subtenant and will not be included as a part of "Operating Expenses" for so long as the first floor submeter is used.

4.1.3 Taxes and Assessments: All items defined as "Taxes and Assessments" as described in Lease Addendum No. 1 to the Master Lease.

4.2 If in any Lease Year commencing with Lease Year 2005, (i) Operating Expenses paid or incurred shall exceed Operating Expenses paid or incurred in the Base Year and/or (ii) Taxes and Assessments paid or incurred by Sublandlord in any Lease Year shall exceed the amount of such Taxes and Assessments which became due and payable in the Base Year, Subtenant shall pay as additional rent for such Lease Year Subtenant's Proportionate Share of such excess.

4.3 Within a reasonable time after receipt by Sublandlord from Master Landlord of an invoice or other notice as to the amount of Operating Expenses and Taxes and Assessments owing pursuant to the Master Lease, Sublandlord shall send Subtenant an invoice for the amount of Operating Expenses and/or Taxes and Assessments owing under this Sublease, and Subtenant shall pay the amount of such invoice to Sublandlord within thirty (30) days after receipt of the invoice.

4.4 Prior to the actual determination thereof for a Lease Year, Sublandlord may from time to time make a good faith estimate of Subtenant's liability for Operating Expenses and/or Taxes and Assessments under Section 4.2, Article 6 and Article 24 for the Lease Year or portion thereof. Sublandlord will give Subtenant written notification of the amount of such estimate and Subtenant agrees that it will pay, by increase of its Monthly Installments of Rent due in such

Lease Year, additional rent in the amount of such estimate. Any such increased rate of Monthly Installments of Rent pursuant to this Section 4.4 shall remain in effect until further written notification to Subtenant pursuant hereto.

4.5 When the above mentioned actual determination of Subtenant's liability for Operating Expenses and/or Taxes and Assessments is made for any Lease Year and when Subtenant is so notified in writing, then:

4.5.1 If the total additional rent Subtenant actually paid pursuant to Section 4.4 on account of Operating Expenses and/or Taxes and Assessments for the Lease Year is less than Subtenant's liability for Operating Expenses and/or Taxes and Assessments, then Subtenant shall pay such deficiency to Sublandlord as additional rent in one lump sum within thirty (30) days of receipt of Sublandlord's bill therefor; and

4.5.2 If the total additional rent Subtenant actually paid pursuant to Section 4.4 on account of Operating Expenses and/or Taxes for the Lease Year is more than Subtenant's liability for Operating Expenses and/or Taxes, then Sublandlord shall credit the difference against the then next due payments to be made by Subtenant under this Article 4. Subtenant shall not be entitled to a credit by reason of actual Operating Expenses and/or Taxes in any Lease Year being less than Operating Expenses and/or Taxes in the Base Year.

4.6 Subtenant's liability for Operating Expenses and Taxes and Assessments for each Lease Year which does not consist of a full twelve (12) months shall be prorated based upon a three hundred sixty-five (365) day year.

5. SECURITY DEPOSIT.

Waived

6. ALTERATIONS.

6.1 Subtenant has examined the Premises and accepts the Premises in its "AS-IS, WHERE-IS" condition, and Subtenant acknowledges and agrees that neither Sublandlord nor any of Sublandlord's agents, employees or representatives has made any representation or warranty, either express or implied, with respect to the Premises, or the use thereof by Subtenant. Subtenant shall not make any alterations to the Premises without Sublandlord's prior written consent and, as may be required by the Master Lease, Master Landlord's prior written consent, it being acknowledged that certain alterations to the Premises have been approved by Sublandlord and Master Landlord as specified in the Consent Letter. If any alterations are permitted, Subtenant shall comply with all requirements of the Master Lease with respect to such alterations, including, but not limited to, mechanic's liens and bonding. When applying for such consent, Subtenant shall, if requested by Sublandlord, furnish complete plans and specifications for such alterations, additions and improvements. The hanging of pictures, cork boards and the like normally allowed in first-class office buildings is permitted without any consent from Sublandlord, but Subtenant shall be responsible for removing same and repairing any damage at the time Subtenant vacates any floor of the Premises unless Master Landlord agrees in a writing addressed to Subtenant and Sublandlord that such removal and repair is not required.

6.2 In the event Sublandlord and Master Landlord consent to the making of any such alteration, addition or improvement by Subtenant, the same shall be made at Subtenant's sole cost and expense.

6.3 Subtenant shall pay in addition to any sums due pursuant to Article 4, any increase in Taxes and Assessments attributable to any such alteration, addition or improvement for so long, during the Term, as such increase is ascertainable; at Sublandlord's election said sums shall be paid in the same way as sums due under Article 4.

6.4 All alterations, additions, and improvements in, on, or to the Premises made or installed by Subtenant, including carpeting installed by Subtenant, shall be and remain the property of Subtenant during the Term but, excepting furniture, furnishings, movable partitions of less than full height from floor to ceiling and other trade fixtures, shall become a part of the realty and belong to Sublandlord without compensation to Subtenant upon the expiration or sooner termination of the Term, at which time title shall pass to Sublandlord under this Sublease as by a bill of sale, unless Sublandlord elects otherwise. Upon such election by Sublandlord, Subtenant shall upon written demand by Sublandlord, at Subtenant's sole cost and expense, forthwith and with all due diligence remove any such alterations, additions or improvements which are designated by Sublandlord to be removed and which did not exist at the commencement of the term of this Sublease, and Subtenant shall forthwith and with all due diligence, at its sole cost and expense, repair and restore the Premises to their original condition, reasonable wear and tear and damage by fire or other casualty excepted. The foregoing notwithstanding, in the event that Subtenant enters into a direct lease with the Master Landlord for occupancy of the Premises commencing at the end of the term of this Sublease, this Section 6.4 shall be inapplicable to the extent that Subtenant is not required by the Master Landlord to remove the alterations, additions and improvements made or installed by Subtenant during the term of this Sublease.

6.5 Because Subtenant has obtained the consent of the Master Landlord as expressed in the Consent Letter, Subtenant will be allowed to provide its own security personnel in the Building in addition to security personnel provided by Master Landlord; provided, however, Subtenant's security procedures and personnel shall in no way negatively affect Sublandlord's ability to sublease the remainder of the Building nor interfere with the business and operations being conducted by other occupants in the Building. In the event that Master Landlord requires the ground-floor Building lobby to be reconfigured as provided in Article 6 of the Master Lease, Subtenant agrees (i) to use reasonable efforts to obtain Master Landlord's consent to minimize the required reconfiguration of the ground-floor Building lobby by utilizing the existing ground-floor Building lobby as a part of Subtenant's security procedures, and (ii) to pay Subtenant's proportionate share of the cost of reconfiguring the ground-floor Building lobby.

6.6 Sublandlord agrees to provide to Subtenant an allowance of up to 10¢ per rentable square foot (that is an allowance not to exceed \$14,617.50) for a test fit for space planning

purposes. The allowance will be paid by Sublandlord to Subtenant within thirty (30) days after receipt of an invoice from Subtenant's architect. The exact amount of the test fit allowance will be the amount billed for such purpose by Subtenant's architect, but in no event to exceed \$14,617.50.

7. REPAIR.

7.1 Subtenant shall be responsible at its cost and expense with regard to the repair and maintenance of the Premises as required by the terms and provisions of the Master Lease. Sublandlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises. Sublandlord will pay the cost, if any, to repair any damage to the first floor lobby floor caused by the removal of the existing turnstiles.

7.2 Except as provided in Article 22, there shall be no abatement of rent and no liability of Sublandlord by reason of any injury to or interference with Subtenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or to fixtures, appurtenances and equipment in the Building. Except to the extent, if any, prohibited by law, Subtenant waives the right to make repairs at Sublandlord's expense under any law, statute or ordinance now or hereafter in effect.

8. LIENS.

Subtenant shall keep the Premises, the Building and appurtenant land and Subtenant's leasehold interest in the Premises free from any liens arising out of any services, work or materials performed, furnished, or contracted for by Subtenant, or obligations incurred by Subtenant. In the event that Subtenant shall not, within ten (10) days following the imposition of any such lien, either cause the same to be released of record or provide Sublandlord with insurance against the same issued by a major title insurance company or such other protection against the same as Sublandlord shall accept, Sublandlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Sublandlord and all expenses incurred by it in connection therewith shall be considered additional rent and shall be payable to it by Subtenant on written demand.

9. ASSIGNMENT AND SUBLETTING.

9.1 Subtenant shall have the right to assign and/or sublease all or any part of the Premises only in the event that Subtenant complies with all of the relevant terms and provisions of the Master Lease and only provided that Subtenant obtains the prior written consent of Sublandlord, which consent may not be unreasonably withheld, conditioned or delayed. Other than as set forth in the preceding sentence and in the following sentence, Subtenant shall not have the right to assign or pledge this Sublease or to sublet the whole or any part of the Premises whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Subtenant, and shall not make, suffer or permit such assignment, subleasing or occupancy except as provided in this Section 9.1. Provided that Subtenant complies with the

applicable provisions of the Master Lease and obtains any required consent of the Master Landlord, Subtenant shall have the right to assign all of its right, title and interest in and to this Sublease without having to obtain Sublandlord's consent to: (i) any corporation or other entity that controls, is controlled by, or is under common control with, Subtenant; (ii) any entity resulting from the merger of or consolidation with Subtenant; or (iii) any entity that acquires substantially all of Subtenant's assets as a going concern of the business that is being conducted on the Premises, so long as the assignee is a bona fide entity and assumes the obligations of Subtenant. Subtenant shall give Sublandlord prior written notice of any assignment or subletting and evidence that the Subtenant has obtained any required consent of Master Landlord. Subtenant shall at all times remain directly, primarily and fully responsible and liable following any assignment or subletting for all of the obligations of Subtenant hereunder.

10. INDEMNIFICATION.

None of the Sublandlord Entities (as defined in Article 25 hereof) shall be liable and Subtenant hereby waives all claims against them for any damage to any property or any injury to any person in or about the Premises or the Building by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Building not being in good condition or repair, gas, fire, oil, electricity or theft), except to the extent caused by or arising from the negligence or willful misconduct of Sublandlord or its agents, employees or contractors. Subtenant shall protect, indemnify and hold the Sublandlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and attorneys' fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Sublandlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises or the Building to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Subtenant, its agents, servants, employees, invitees, or visitors to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Subtenant in or about the Premises or from transactions of the Subtenant concerning the Premises; (c) Subtenant's failure to comply with any and all governmental laws, ordinances and regulations applicable to the condition or use of the Premises or its occupancy; or (d) any breach or default on the part of Subtenant in the performance of any covenant or agreement on the part of the Subtenant to be performed pursuant to this Sublease. The provisions of this Article shall survive the termination of this Sublease with respect to any claims or liability accruing prior to such termination. Subtenant acknowledges that Sublandlord is not in a position to provide services to the Building, as such all such services are provided by the Master Landlord, and Subtenant agrees to deal directly with the Master Landlord with respect to all services and utilities to be provided to the Building.

11. INSURANCE.

11.1 Subtenant shall, at its sole cost and expense, maintain throughout the Term with respect to the Premises, all insurance coverages required to be maintained by Sublandlord under the Master Lease pursuant to the terms and provisions of the Master Lease. Sublandlord and

Master Landlord shall be named as additional insureds under such insurance. Subtenant shall provide Sublandlord and Master Landlord with certificates of insurance evidencing the insurance to be maintained by Subtenant hereunder. Subtenant agrees to give Sublandlord and Master Landlord at least thirty (30) days advance written notice of any cancellation or reduction of insurance under any such policy.

11.2 Each of the aforesaid policies shall (a) be provided at Subtenant's expense; (b) name the Sublandlord, the Master Landlord and the building management company as additional insureds; (c) be issued by an insurance company with a minimum Best's rating of "A:VII" during the Term; and (d) provide that said insurance shall not be cancelled unless thirty (30) days prior written notice (ten days for non-payment of premium) shall have been given to Sublandlord and Master Landlord; and said policy or policies or certificates thereof shall be delivered to Sublandlord and Master Landlord by Subtenant (prior to Subtenant's accessing the Building as provided in Section 2.1 hereof), and at least thirty (30) days prior to each renewal of said insurance.

11.3 Whenever Subtenant shall undertake any alterations, additions or improvements in, to or about the Premises ("Work") the aforesaid insurance protection must extend to and include injuries to persons and damage to property arising in connection with such Work and such other insurance as Sublandlord and Master Landlord shall require; and the policies of or certificates evidencing such insurance must be delivered to Sublandlord and Master Landlord prior to the commencement of any such Work.

12. WAIVER OF SUBROGATION.

So long as their respective insurers so permit, Subtenant and Sublandlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage, All Risks or other insurance now or hereafter existing for the benefit of the respective party but only to the extent of the net insurance proceeds payable under such policies. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

13. SERVICES AND UTILITIES.

13.1 Subtenant acknowledges that Sublandlord does not covenant or agree to do or perform any obligations undertaken or assumed by the Master Landlord under the Master Lease and that Master Landlord has responsibility for providing services and utilities under the terms of the Master Lease.

13.2 Provided that Subtenant obtains Master Landlord's approval, Sublandlord agrees (i) to allow one stall in the loading dock area of the Building to be dedicated to Subtenant's use; and (ii) to allow Subtenant, at Subtenant's sole cost and expense, to have two of the Building's elevators dedicated to access only the floors comprising the Premises (except that the elevators accessing the other floors in the Building will also access the first floor of the Premises), and for the other three passenger elevators not to be allowed access to the floors comprising the Premises

(except the first floor of the Premises), and that the freight elevator will not access any floor of the Premises (other than the first floor) except by use of an elevator card to be installed at Subtenant's sole expense; (iii) to allow Subtenant to continue to maintain the operation of a cafeteria facility on the first floor of the Building (within the Premises) for the sole use of Subtenant and its employees and visitors as identified on Lease Addendum No. 3.1 to the Master Lease; (iv) to allow Subtenant to utilize thirty (30) of the reserved parking spaces on level 4 of the Parking Facility for Subtenant's employees, and twelve (12) of the reserved parking spaces for Subtenant's visitors in the locations identified on Lease Addendum No. 3.1 to the Master Lease as designated on Exhibit I of this Sublease, provided that Subtenant shall bear all costs associated with painting and otherwise designating such parking spaces as appropriate; (v) to allow the installation of an add-on or additional UPS system within the Premises; and (vi) to allow the installation of generators, generator pads, cooling tanks for Liebert units, and Liebert units.

13.3 Subtenant acknowledges that Article 5 of the Master Lease contains provisions respecting after hours heating and air conditioning, and Subtenant agrees to make arrangements directly with Master Landlord, and be billed directly by Master Landlord for all after hours heating and air conditioning required by Subtenant in the Premises.

13.4 It is generally understood that mold spores are part of the environment, present essentially everywhere and can grow in most moist locations. Emphasis is properly placed on prevention of moisture and on good housekeeping and ventilation practices. Subtenant acknowledges the necessity of housekeeping, ventilation, and moisture control (especially in kitchens, janitor's closets, bathrooms, break rooms and around outside walls) for mold prevention. Prior to executing this Sublease, Subtenant has first inspected the Premises and certifies that Subtenant has not observed mold, mildew or moisture within the Premises. Subtenant agrees to immediately notify Sublandlord and the Building's property manager if it observes mold/mildew and/or moisture conditions (from any source, including leaks), and shall allow the Building's management representatives to evaluate and make recommendations and/or take appropriate corrective action. **SUBTENANT EXPRESSLY ASSUMES AND ACCEPTS ANY AND ALL RISKS INVOLVED IN OR RELATED TO, AND RELEASES SUBLANDLORD AND SUBLANDLORD'S MANAGERS, AGENTS, EMPLOYEES AND OFFICERS FROM ANY LIABILITY FOR ANY PERSONAL INJURY OR DAMAGES TO PROPERTY CAUSED BY OR ASSOCIATED WITH, MOISTURE OR THE GROWTH OR OCCURRENCE OF MOLD OR MILDEW WITHIN THE PREMISES PRIOR TO OR DURING THE TERM OF THIS LEASE.** In addition, Subtenant acknowledges that control of moisture and mold prevention are integral to its sublease obligations.

13.5 Pursuant to Lease Addendum No. 4 of the Master Lease, included as a part of the Premises is the right for Subtenant (on a non-exclusive basis) to have its name listed on all signage outside of the Building, including on all monument signs in the top position, and that part of the Rooftop Premises (as such term is used in Lease Addendum No. 11 to the Master Lease) as shown on the diagram attached hereto as Exhibit H. Exhibit H also details that part of the Rooftop Premises which is included as a part of the Premises subleased by Sublandlord to Subtenant pursuant to this Sublease; provided, however, because Exhibit H is not an accurate

measurement, in no event will more than 59.1% of the Rooftop Premises be included as a part of the Premises subleased by Sublandlord to Subtenant hereunder, and in the event that upon accurate measurement it is determined that Exhibit H hereto includes more than 59.1% of the Rooftop Premises, a revised Exhibit H will be prepared, attached hereto and substituted for the Exhibit H currently attached to this Sublease. Sublandlord agrees that it will include provisions in the subleases for the other floors in the Building to be subleased by Sublandlord to prohibit any other of Sublandlord's subtenants from erecting a dish on the Rooftop Premises that would block Subtenant's signs to be affixed to the walls of the Rooftop penthouse.

14. HOLDING OVER.

Unless otherwise provided in the Consent Letter, Subtenant shall have no right to occupy the Premises or any part thereof after expiration of this Sublease or after termination of this Sublease or of Subtenant's right to possession after the occurrence of an Event of Default hereunder. If Subtenant or any party claiming by, through or under Subtenant holds over in violation of this Sublease, Sublandlord may exercise any and all remedies available to it at law or in equity to recover possession of the Premises, and to recover damages, including, without limitation, damages payable by Sublandlord to Master Landlord by reason of such holdover.

15. SUBORDINATION.

Without the necessity of any additional document being executed by Subtenant for the purpose of effecting a subordination, this Sublease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages, deeds to secure debt or deeds of trust now or hereafter placed on, against or affecting the Building, Master Landlord's interest or estate in the Building, or any ground or underlying lease, provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage, deed to secure debt or deed of trust elects to have Subtenant's interest in this Sublease be superior to any such instrument, then, by notice to Subtenant, this Sublease shall be deemed superior, whether this Sublease was executed before or after said instrument. Notwithstanding the foregoing, Subtenant covenants and agrees to execute and deliver upon reasonable prior written demand such further instruments evidencing such subordination or superiority of this Sublease as reasonably may be required by Master Landlord. Upon reasonable prior written demand, Subtenant agrees to execute such subordination and attornment agreements as the holder of any mortgage, or deed to secure debt on the Building may reasonably require. Attached hereto as Exhibit C and incorporated herein is a form of subordination, non-disturbance and attornment agreement, which form Subtenant agrees is reasonable and agrees to enter into.

16. RULES AND REGULATIONS.

Subtenant shall faithfully observe and comply with all the rules and regulations as set forth in Exhibit B to the Master Lease and such additional or different rules and regulations adopted by the Master Landlord from time to time.

17. SUBLANDLORD'S AGREEMENT TO NOT EXERCISE ITS CANCELLATION RIGHT.

As long as this Sublease remains in full force and effect, Sublandlord agrees that it will not exercise its cancellation right provided in Article 21 of the Master Lease to cancel the Master Lease with respect to any part of the Premises.

18. DEFAULT.

The following events shall be deemed to be Events of Default under this Sublease:

18.1. Subtenant shall fail to pay when due any sum of money becoming due to be paid to Sublandlord under this Sublease, whether such sum be any installment of the rent reserved by this Sublease, any other amount treated as additional rent under this Sublease, or any other payment or reimbursement to Sublandlord required by this Sublease, whether or not treated as additional rent under this Sublease, and such failure shall continue for a period of five days after written notice that such payment was not made when due, but if any such notice shall be given, for the twelve-month period commencing with the date of such notice, the failure to pay within five days after due any other sum of money becoming due to be paid to Sublandlord under this Sublease during such period shall be an Event of Default, without notice.

18.2 Subtenant shall fail to comply with any term, provision or covenant of this Sublease which is provided for in another Section of this Article and shall not cure such failure within twenty (20) days (immediately, if the failure involves a hazardous condition) after written notice of such failure to Subtenant; provided, however, if such failure (other than a failure involving a hazardous condition) cannot practically be cured within twenty (20) days, Subtenant shall have such longer period of time as is reasonably necessary to cure such failure to comply provided that Subtenant commences the cure within the first twenty (20) days and thereafter diligently prosecutes the cure to completion.

18.3 Subtenant shall fail to vacate the Premises immediately upon termination of this Sublease, by lapse of time or otherwise, or upon termination of Subtenant's right to possession only, unless after February 28, 2011, Subtenant is allowed to remain in possession of the Premises pursuant to a direct lease entered into with the Master Landlord.

18.4 Subtenant shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof.

18.5 A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Subtenant bankrupt, or appointing a receiver of Subtenant, or of the whole or any substantial part of its property, without the consent of Subtenant, or approving a petition filed

against Subtenant seeking reorganization or arrangement of Subtenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within thirty (30) days from the date of entry thereof.

18.6 Subtenant commits any act or omission which constitutes a default under the Master Lease unless such default is waived by the Master Landlord or has been consented to by Master Landlord.

18.7 Subtenant shall assign, sublet or transfer its interest hereunder in violation of this Sublease.

19. REMEDIES.

19.1 Upon the occurrence of any of the Events of Default described or referred to in Article 18, Sublandlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever, concurrently or consecutively and not alternatively:

19.1.1 Sublandlord may, at its election, terminate this Sublease or terminate Subtenant's right to possession only, without terminating the Sublease.

19.1.2 Upon any termination of this Sublease due to an Event of Default, or upon any termination due to an Event of Default of Subtenant's right to possession without termination of the Sublease, Subtenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Sublandlord, and Subtenant hereby grants to Sublandlord full and free license to enter into and upon the Premises in such event and to repossess Sublandlord of the Premises as of Sublandlord's former estate and to expel or remove Subtenant and any others who may be occupying or be within the Premises and to remove Subtenant's signs and other evidence of tenancy and all other property of Subtenant therefrom without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without incurring any liability for any damage resulting therefrom, Subtenant waiving any right to claim damages for such re-entry and expulsion, and without relinquishing Sublandlord's right to rent or any other right given to Sublandlord under this Sublease or by operation of law.

19.1.3 Upon any termination of this Sublease due to an Event of Default, Sublandlord shall be entitled to recover as damages, all rent, including any amounts treated as additional rent under this Sublease, and other sums due and payable by Subtenant on the date of termination, plus as liquidated damages and not as a penalty, Subtenant and Sublandlord agreeing that the damages to be suffered by Sublandlord in such event are substantial, but are not subject to being accurately estimated as of the time of execution of this Sublease, and the parties further agreeing that the liquidated damages provided herein are a good faith pre-estimate of the actual damages to be suffered by Landlord, an amount equal to the sum of (a) an amount equal to the then present value of the rent reserved in this Sublease for the residue of the stated Term of this Sublease including any amounts treated as additional rent under this Sublease and all other sums

provided in this Sublease to be paid by Subtenant, minus the fair rental value of the Premises for such residue; (b) the value of the reasonable time and expense necessary to obtain a replacement subtenant or subtenants, and the estimated expenses described in Section 19.1.4 relating to recovery of the Premises, preparation for reletting and for reletting itself, and (c) the cost of performing any other covenants which would have otherwise been performed by Subtenant.

19.1.4 Upon any termination due to an Event of Default of Subtenant's right to possession only without termination of the Sublease:

19.1.4.1 Neither such termination of Subtenant's right to possession nor Sublandlord's taking and holding possession thereof as provided in Section 19.1.2 shall, by itself, terminate the Sublease or release Subtenant, in whole or in part, from any obligation, including Subtenant's obligation to pay the rent, including any amounts treated as additional rent, under this Sublease for the full Term.

19.1.4.2 Sublandlord may, but need not, relet the Premises or any part thereof for such rent and upon such terms as Sublandlord, in its sole discretion, shall determine (including the right to relet the premises for a greater or lesser term than that remaining under this Sublease, the right to relet the Premises as a part of a larger area, and the right to change the character or use made of the Premises). In connection with or in preparation for any reletting, Sublandlord may, but shall not be required to, make repairs, alterations and additions in or to the Premises and redecorate the same to the extent Sublandlord deems necessary or desirable, and Subtenant shall, upon demand, pay the reasonable cost thereof, together with Sublandlord's reasonable expenses of reletting, including, without limitation, any commission incurred by Sublandlord. If Sublandlord decides to relet the Premises or a duty to relet is imposed upon Sublandlord by law, Sublandlord and Subtenant agree that nevertheless Sublandlord shall at most be required to use only the same efforts Sublandlord then uses to lease premises in the Building generally and that in any case that Sublandlord shall not be required to give any preference or priority to the showing or leasing of the Premises over any other space that Sublandlord may be leasing or have available and may place a suitable prospective subtenant in any such other space regardless of when such other space becomes available. Sublandlord shall not be required to observe any instruction given by Subtenant about any reletting or accept any subtenant offered by Subtenant unless such offered subtenant has a credit-worthiness acceptable to Sublandlord and leases the entire Premises upon terms and conditions including a rate of rent (after giving effect to all expenditures by Sublandlord for Subtenant improvements, broker's commissions and other leasing costs) all no less favorable to Sublandlord than as called for in this Sublease, nor shall Sublandlord be required to make or permit any assignment, or sublease for more than the current term or which Sublandlord would not be required to permit under the provisions of Article 9.

19.1.4.3 Until such time as Sublandlord shall elect to terminate the Sublease and shall thereupon be entitled to recover the amounts specified in such case in Section 19.1.3, Subtenant shall pay to Sublandlord upon demand the full amount of all rent, including any amounts treated as additional rent under this Sublease and other sums reserved in this Sublease for the remaining Term, together with Sublandlord's reasonable costs incurred until Sublandlord shall elect to terminate the Sublease of repairs, alterations, additions, redecorating and Sublandlord's expenses of reletting and the collection of the rent accruing therefrom (including attorneys' fees and broker's commissions), as the same shall then be due or become due from time to time, less only such consideration as Sublandlord may have received from any reletting of the Premises; and Subtenant agrees that Sublandlord may file suits from time to time to recover any sums falling due under this Article 19 as they become due. Any proceeds of reletting by Sublandlord in excess of the amount then owed by Subtenant to Sublandlord from time to time shall be credited against Subtenant's future obligations under this Sublease but shall not otherwise be refunded to Subtenant or inure to Subtenant's benefit.

19.2 Sublandlord may, at Sublandlord's option, enter into and upon the Premises if Sublandlord determines in its sole discretion that Subtenant is not acting within a commercially reasonable time to maintain, repair or replace anything for which Subtenant is responsible under this Sublease and correct the same, without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or interruption of Subtenant's business resulting therefrom. If Subtenant shall have vacated the Premises, Sublandlord may at Sublandlord's option re-enter the Premises at any time during the last six months of the then current Term of this Sublease and make any and all such changes, alterations, revisions, additions and Subtenant and other improvements in or about the Premises as Sublandlord shall elect, all without any abatement of any of the rent otherwise to be paid by Subtenant under this Sublease,

19.3 If, on account of an Event of Default, it shall become necessary or appropriate for Sublandlord to employ or consult with an attorney concerning or to enforce or defend any of Sublandlord's rights or remedies arising under this Sublease, Subtenant agrees to pay all Sublandlord's reasonable attorneys' fees so incurred.

19.4 Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided in this Sublease or any other remedies provided by law (all such remedies being cumulative), nor shall pursuit of any remedy provided in this Sublease constitute a forfeiture or waiver of any rent due to Sublandlord under this Sublease or of any damages accruing to Sublandlord by reason of the violation of any of the terms, provisions and covenants contained in this Sublease.

19.5 No act or thing done by Sublandlord or its agents during the Term shall be deemed a termination of this Sublease or an acceptance of the surrender of the Premises, and no agreement to terminate this Sublease or accept a surrender of said Premises shall be valid, unless

in writing signed by Sublandlord and Subtenant. No waiver by Sublandlord or Subtenant of any violation or breach of any of the terms, provisions and covenants contained in this Sublease shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants contained in this Sublease. Sublandlord's acceptance of the payment of rental or other payments after the occurrence of an Event of Default shall not be construed as a waiver of such Event of Default, unless Sublandlord so notifies Subtenant in writing. Subject to applicable statutes of limitation, forbearance by Sublandlord or Subtenant in enforcing one or more of the remedies provided in this Sublease upon an Event of Default by Subtenant or a default by Sublandlord, respectively, shall not be deemed or construed to constitute a waiver of such Event of Default by Subtenant or default by Sublandlord or of the non-defaulting party's right to enforce any such remedies with respect to any subsequent matter.

20. SUBTENANT'S BANKRUPTCY OR INSOLVENCY.

20.1 If at any time and for so long as Subtenant shall be subjected to the provisions of the United States Bankruptcy Code or other law of the United States or any state thereof for the protection of debtors as in effect at such time (each a "Debtor's Law"):

20.1.1 Subtenant, Subtenant as debtor-in-possession, and any trustee or receiver of Subtenant's assets (each a "Subtenant's Representative") shall have no greater right to assume or assign this Sublease or any interest in this Sublease, or to sublease any of the Premises than accorded to Subtenant in Article 9, except to the extent Sublandlord shall be required to permit such assumption, assignment or sublease by the provisions of such Debtor's Law. Without limitation of the generality of the foregoing, any right of any Subtenant's Representative to assume or assign this Sublease or to sublease any of the Premises shall be subject to the conditions that:

20.1.1.1 Such Debtor's Law shall provide to Subtenant's Representative a right of assumption of this Sublease which Subtenant's Representative shall have timely exercised and Subtenant's Representative shall have fully cured any default of Subtenant under this Sublease.

20.1.1.2 Subtenant's Representative or the proposed assignee, as the case shall be, shall have deposited with Sublandlord as security for the timely payment of rent an amount equal to the larger of (a) three months' rent and other monetary charges accruing under this Sublease; and (b) any sum specified in Article 5; and shall have provided Sublandlord with adequate other assurance of the future performance of the obligations of the Subtenant under this Sublease. Without limitation, such assurances shall include, at least, in the case of assumption of this Sublease, demonstration to the satisfaction of the Sublandlord that Subtenant's Representative has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Sublandlord that Subtenant's Representative will have sufficient funds to fulfill the obligations of Subtenant under this Sublease; and, in the case of assignment, submission of current financial statements of the proposed assignee, audited by an

independent certified public accountant reasonably acceptable to Sublandlord and showing a net worth and working capital in amounts determined by Sublandlord to be sufficient to assure the future performance by such assignee of all of the Subtenant's obligations under this Sublease.

20.1.1.3 Sublandlord shall have, or would have had absent the Debtor's Law, no right under Article 9 to refuse consent to the proposed assignment or sublease by reason of the identity or nature of the proposed assignee or sublessee or the proposed use of the Premises concerned.

21. QUIET ENJOYMENT.

Sublandlord represents and warrants that subject to obtaining the consent of the Master Landlord, it has full right and authority to enter into this Sublease and that Subtenant, while paying the rental and performing its other covenants and agreements contained in this Sublease and of the Master Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation from Sublandlord, subject to the terms and provisions of this Sublease. Sublandlord shall not be liable for any interference or disturbance by other subtenants or third persons, nor shall Subtenant be released from any of the obligations of this Sublease because of such interference or disturbance by other subtenants or third persons.

22. CASUALTY DAMAGE AND EMINENT DOMAIN

22.1 Reference is hereby made to Articles 7 and 16 of the Master Lease. In the event that the Master Lease is not cancelled by either the Master Landlord or Sublandlord pursuant to the terms and provisions of Articles 7 or 16, this Sublease shall not be terminated or cancelled but shall also continue in full force and effect, except that until the Premises are restored, there shall be a proportionate abatement of annual rent payable hereunder on the same prorata basis and to the same extent Sublandlord is entitled to an abatement under the Master Lease with respect to the Premises.

23. NOTICES.

Any notice or document required or permitted to be delivered under this Sublease shall be addressed to the intended recipient, shall be transmitted by hand delivery or by FedEx or similar overnight courier service, and shall be deemed to be delivered when tendered for delivery to the addressee at its address set forth on the Key Provision Summary, or at such other address as it has then last specified by written notice delivered in accordance with this Article 23.

24. TAXES PAYABLE BY SUBTENANT.

In addition to rent and other charges to be paid by Subtenant under this Sublease, Subtenant shall reimburse to Sublandlord, within ten (10) days after receiving a written demand, any and all taxes payable by Sublandlord (other than net income taxes) whether or not now customary or within the contemplation of the parties to this Sublease: (a) upon, allocable to, or

measured by or on the gross or net rent payable under this Sublease, including without limitation any gross income tax or excise tax levied by the State of Georgia, any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; (b) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Premises or any portion thereof, including any sales, use or service tax imposed as a result thereof; (c) upon or measured by the Subtenant's gross receipts or payroll or the value of Subtenant's equipment, furniture, fixtures and other personal property of Subtenant or leasehold improvements, alterations or additions located in the Premises; or (d) upon this transaction or any document to which Subtenant is a party creating or transferring any interest of Subtenant in this Sublease or the Premises. In addition to the foregoing, Subtenant agrees to pay, before delinquency, any and all taxes levied or assessed against Subtenant and which become payable during the term hereof upon Subtenant's equipment, furniture, fixtures and other personal property of Subtenant located in the Premises. Subtenant shall be entitled to the benefit of any tax incentives received as a result of Subtenant's relocation to the Premises.

25. DEFINED TERMS AND HEADINGS.

The Article headings shown in this Sublease are for convenience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Sublease. Any indemnification or insurance of Sublandlord shall apply to and inure to the benefit of all the following "Sublandlord Entities", being hereby defined as Sublandlord, Sublandlord's Board of Directors, officers, employees and agents. The terms "Subtenant" and "Sublandlord" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and each of their respective successors, executors, administrators and permitted assigns, according to the context hereof. Subtenant hereby accepts and agrees to be bound by the figures for the rentable square footage of the Premises and Subtenant's Proportionate Share shown on the Key Provisions Summary.

26. COMMISSIONS.

Each of the parties represents and warrants to the other that it has not dealt with any broker or finder in connection with this Sublease, except as described on the Key Provisions Summary.

27. TIME AND APPLICABLE LAW.

Time is of the essence of this Sublease and all of its provisions. This Sublease shall in all respects be governed by the laws of the State of Georgia.

28. SUCCESSORS AND ASSIGNS.

Subject to the provisions of Article 9, the terms, covenants and conditions contained in this Sublease shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators and assigns of the parties to this Sublease.

29. ENTIRE AGREEMENT.

This Sublease, together with its exhibits, contains all agreements of the parties to this Sublease and supersedes any previous negotiations. There have been no representations made by the Sublandlord or Subtenant or understandings made between the parties other than those set forth in this Sublease and its exhibits. This Sublease may not be modified except by a written instrument duly executed by the parties to this Sublease.

30. ATTORNEYS' FEES.

In the event that any action or proceeding is brought to enforce or construe any term, covenant or condition of this Sublease on the part of Sublandlord or Subtenant, including, without limitation, any participation in any bankruptcy, arbitration or mediation process, the prevailing party in such litigation shall be entitled to reasonable attorneys' fees to be fixed by the Court in such action or proceeding, including, without limitation, attorneys' fees at both the trial and appellate levels.

31. SPECIAL STIPULATIONS.

Special Stipulations to this Sublease are set forth on Exhibit G attached hereto and made a part hereof. In the event of any conflict between any provision set forth in Exhibit G and any provision contained elsewhere in this Sublease, the former in all events shall supersede, prevail and control.

IN WITNESS WHEREOF, Sublandlord and Subtenant have caused this Sublease to be duly executed, sealed and delivered the day and year first above written.

SUBLANDLORD:

THE COCA-COLA COMPANY, a Delaware corporation

By: /s/ David M. Taggart

Name: David M. Taggart
Title: Vice President and Treasurer

(CORPORATE SEAL)

Dated: December 29, 2003

SUBTENANT:

GLOBAL PAYMENTS INC., a Georgia corporation

By: /s/ Suellen P. Tornay

Name: Suellen P. Tornay
Title: General Counsel

(CORPORATE SEAL)

Dated: December 24, 2003

EXHIBIT F

RENT

attached to and made a part of Sublease bearing the
Lease Reference Date of December 23, 2003 between
The Coca-Cola Company, as Sublandlord and
Global Payments Inc., as Subtenant

<u>Floor 1</u>	<u>Period of Time</u>	<u>RSF</u>	<u>Annual</u>	<u>Monthly</u>
	3/1/04 – 2/28/05	20,670	-0-	-0-
	3/1/05 – 2/28/06	20,670	351,286.65	29,273.89
	3/1/06 – 2/28/07	20,670	361,825.25	30,152.10
	3/1/07 – 2/28/08	20,670	372,680.01	31,056.67
	3/1/08 – 2/29/09	20,670	383,860.41	31,988.37
	3/1/09 – 2/28/10	20,670	395,376.22	32,948.02
	3/1/10 – 2/28/11	20,670	407,237.51	33,936.46
Floor 2	Period of Time	RSF	Annual	Monthly
	3/1/04 – 2/28/05	24,090	-0-	-0-
	3/1/05 – 2/28/06	24,090	409,409.55	34,117.46
	3/1/06 – 2/28/07	24,090	421,691.84	35,140.99
	3/1/07 – 2/28/08	24,090	434,342.59	36,195.22
	3/1/08 – 2/29/09	24,090	447,372.87	37,281.07
	3/1/09 – 2/28/10	24,090	460,794.06	38,399.50
	3/1/10 – 2/28/11	24,090	474,617.88	39,551.49
Floor 7	Period of Time	RSF	Annual	Monthly
	3/1/04 – 2/28/05	25,410	-0-	-0-
	3/1/05 – 2/28/06	25,410	431,842.95	35,986.91
	3/1/06 – 2/28/07	25,410	444,798.24	37,066.52
	3/1/07 – 2/28/08	25,410	458,142.19	38,178.52
	3/1/08 – 2/29/09	25,410	471,886.45	39,323.87
	3/1/09 – 2/28/10	25,410	486,043.04	40,503.59
	3/1/10 – 2/28/11	25,410	500,624.34	41,718.69

Initial: Sublandlord

Initial: Subtenant

EXHIBIT F

RENT

attached to and made a part of Sublease bearing the
Lease Reference Date of December 23, 2003 between
The Coca-Cola Company, as Sublandlord and
Global Payments Inc., as Subtenant

<u>Floor 8</u>	<u>Period of Time</u>	<u>RSF</u>	<u>Annual</u>	<u>Monthly</u>
	3/1/04 – 2/28/05	25,410	-0-	-0-
	3/1/05 – 2/28/06	25,410	431,842.95	35,986.91
	3/1/06 – 2/28/07	25,410	444,798.24	37,066.52
	3/1/07 – 2/28/08	25,410	458,142.19	38,178.52
	3/1/08 – 2/29/09	25,410	471,886.45	39,323.87
	3/1/09 – 2/28/10	25,410	486,043.04	40,503.59
	3/1/10 – 2/28/11	25,410	500,624.34	41,718.69
Floor 9	Period of Time	RSF	Annual	Monthly
	3/1/04 – 2/28/05	25,410	-0-	-0-
	3/1/05 – 2/28/06	25,410	431,842.95	35,986.91
	3/1/06 – 2/28/07	25,410	444,798.24	37,066.52
	3/1/07 – 2/28/08	25,410	458,142.19	38,178.52
	3/1/08 – 2/29/09	25,410	471,886.45	39,323.87
	3/1/09 – 2/28/10	25,410	486,043.04	40,503.59
	3/1/10 – 2/28/11	25,410	500,624.34	41,718.69
Floor 10	Period of Time	RSF	Annual	Monthly
	3/1/04 – 2/28/05	25,185	-0-	-0-
	3/1/05 – 2/28/06	25,185	544,751.55	45,395.96
	3/1/06 – 2/28/07	25,185	561,094.10	46,757.84
	3/1/07 – 2/28/08	25,185	577,926.92	48,160.58
	3/1/08 – 2/29/09	25,185	595,264.73	49,605.39
	3/1/09 – 2/28/10	25,185	613,122.67	51,093.56
	3/1/10 – 2/28/11	25,185	631,516.35	52,626.36

Initial: Sublandlord

Initial: Subtenant

**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 quarterly report on Form 10-Q of Global Payments Inc.;
2. Based on my knowledge, this quarterly 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: April 1, 2004

By:

/s/ PAUL R. GARCIA

Paul R. Garcia
Chief Executive 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 Quarterly Report of the Global Payments Inc. on Form 10-Q for the period ended February 29, 2004 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.
April 1, 2004

James G. Kelly
Chief Financial Officer
Global Payments Inc.
April 1, 2004

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

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

In order to provide our transaction processing services, we must be designated a certified processor by, and be a 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 merchant customers and lead to a reduction in our revenues.

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. Consequently, if a key ISO switches to another transaction processor, our revenues and earnings could be negatively affected.

With significant operations in Canada and our recent entry into the consumer electronic money transfer market from the U.S. to the Latin American corridor, we are exposed to significant 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 are denominated in Canadian dollars. The repatriation of our earnings from Canada will subject us to the risk that currency exchange rates between Canada and the United States will fluctuate, resulting in a loss of some of our earnings when such earnings are exchanged into U.S. dollars.

In addition, our consumer money transfer operations subject us to foreign currency exchange risks as our customers deposit U.S. dollars at our branch and agent locations in the United States and we deliver funds denominated in the home country currencies to beneficiaries in Mexico and other Latin American countries.

Additionally, our credit facility with CIBC carries an interest rate based on Canadian Dollar LIBOR (CSLIBOR). 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 was scheduled to expire on December 9, 2003 but its expiration date was subsequently extended until April 30, 2004. The credit facility is renewable only at the consent of CIBC. Should CIBC choose not to renew the credit facility, we will have to find alternative financing or fund the Canadian merchants ourselves. We are currently negotiating the syndication of this facility among CIBC and a group of U.S. lenders and expect to receive future monthly extensions until we complete the syndication. We expect to complete the syndication by the end of calendar 2004 and expect that the credit facility will have a minimum term of 364 days and will be renewable annually. However, if we are unable to successfully negotiate the syndication of this credit facility, we may have to seek alternative financing, which may carry a higher interest rate and reduce our earnings from operations. Furthermore, if we are unable to secure alternate financing, we may not have the cash flow necessary to fund the Canadian merchants ourselves, and we may lose those customers as a result.

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 our customers or our ability to develop new technologies.

We operate in the electronic payments and money transfer industries. Our primary competitors in this industry include other independent processors and electronic money transmitters, 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 our largest competitor in both the electronic payments and money transfer industries. 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 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. Any risks associated with an unexpected recessionary economy that we could not mitigate may result in lower profits and revenues and earnings for us.

In order to remain competitive and to 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 and consumer money transfer markets in which we compete include a wide range of products and services including electronic transaction processing, consumer money transfer, reporting on transactions and other customer support services. These markets are characterized by technological change, new product introductions, evolving industry standards and changing customer needs. In order to remain competitive, we are continually involved in a number of research and development projects. 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 and consumer money transfer markets these risks are even more acute. Our markets are constantly experiencing rapid technological change. Any delay in the delivery of new products or services could render them less desirable by our customers, or possibly even obsolete. In addition, the products and services we deliver to the electronic payments and consumer money transfer markets are designed to process very complex transactions and deliver reports and other information on those transactions, all at very high volumes and processing speeds. Any performance issue that arises with a new product or service could result in significant processing or reporting errors. As a result of these factors, our research and development efforts could result in increased costs that could reduce our 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.

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, by utilizing computer systems and telecommunications networks operated both by us and by third party service providers. Although plans and procedures are in place to protect our sensitive data and to prevent failure of, and to provide backup for, our systems, we cannot be certain that our measures will be successful. A security breach or other misuse of 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.

Reduced levels of consumer spending can adversely affect our revenues.

A significant portion of our revenue 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.

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

If state, federal or foreign authorities adopt new legislation or impose new regulations that make it more difficult for our customers to initiate or their beneficiaries to receive electronic money transfers, then our revenues may be negatively affected.

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

Our consumer electronic money transfer business primarily focuses on customers who immigrate to the United States from Latin American countries in order to find higher paying jobs and then send a portion of their earnings to family members in Latin America. Any changes in federal policies toward immigration may negatively affect the number of immigrants in the United States, which may reduce our customer base and the corresponding revenues related thereto.

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 depend 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 may not be able to continue to grow our revenues and earnings.

As a result of the ownership by the Canadian Imperial Bank of Commerce, or CIBC, of approximately 22% 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 approximately 22% of our common stock and in order not to jeopardize CIBC's investment in us, we are 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). Under U.S. banking law, CIBC may hold more than 5% of the outstanding voting shares of a company only if the company engages in activities that are permissible for CIBC. 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, its subsidiaries, and the companies in which CIBC holds more than 5% of the outstanding voting shares 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 certain businesses or investments.

If CIBC were to own 25% or more of our common shares, were to control the election of a majority of our directors, were deemed by the Federal Reserve Board to exercise a controlling influence over us, or were able to condition certain transfers of more than 25% of our common stock, we would be treated as a subsidiary of CIBC. In that event, we would be subject to the same activities limitations and would directly be subject to examinations by and regulatory requirements of the Federal Reserve Board.

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.

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 this 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" in our Annual Report on Form 10-K.

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

Under the terms of the inter-company systems/network services agreement between NDCHealth and us, NDCHealth provides us with a continuation of the telecommunication services from the carriers who have and will continue to provide telecommunication services to NDCHealth, including engineering and procurement. In addition, NDCHealth supplies 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 NDCHealth 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 NDCHealth or if NDCHealth 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 to us on favorable terms.

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.

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

In order to process transactions promptly, our computer equipment and network servers must be functional on a 24-hour basis, which requires access to telecommunications facilities and the availability of electricity. Furthermore, with respect to certain processing services, we are dependent on the systems and services of third party vendors. Telecommunications services and the electricity supply are susceptible to disruption. Computer system interruptions and other processing errors, whether involving our own systems or 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.

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 indirect channels 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.

Loss of strategic industries could reduce revenues and earnings.

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

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 year ended May 31, 2001, 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 stopped practicing before the Commission. The SEC has stated that, for the time being, it will continue accepting financial statements audited by Arthur Andersen LLP. Arthur Andersen LLP would not have the ability 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 fiscal year 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 would not be able to obtain the necessary consent and representations from Arthur Andersen LLP. As a result, we would 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 Anderson 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.

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 and money transfer industries, and the selected markets in which we offer our services. It is possible that the loss of the services of one or a combination of our key personnel would have an adverse effect on our 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.

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.

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.