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Common Stock, No Par Value

New York Stock Exchange

Series A Junior Participating Preferred Share Purchase Rights

New York Stock Exchange

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

NONE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates (assuming for these purposes, but not conceding, that all named executive officers, directors, and shareholders owning 15% or more of the outstanding shares of common stock as of November 30, 2005, are affiliates of the Registrant) was \$3,425,122,491 based upon the last reported sale price on the New York Stock Exchange on November 30, 2005.

The number of shares of the registrant's common stock outstanding at July 26, 2006 was 79,906,253 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Specifically identified portions of the registrant's proxy statement for the 2006 annual meeting of shareholders are incorporated by reference in Part III.

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**GLOBAL PAYMENTS INC.
2006 FORM 10-K ANNUAL REPORT**

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CAUTIONARY NOTICE REGARDING

FORWARD-LOOKING STATEMENTS

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

We believe that it is important to communicate our plans and expectations about the future to our shareholders and to the public. Some of the statements we use in this report, and in some of the documents we incorporate by reference in this report, contain forward-looking statements concerning our business operations, economic performance and financial condition, including in particular: our business strategy and means to implement the strategy; the amount of future results of operations, such as revenue, certain expenses, operating margins, income tax rates, shares outstanding, capital expenditures, operating metrics, and earnings per share; our success and our timing in developing and introducing new products or services and expanding our business; and the successful integration of future acquisitions. You can sometimes identify forward looking-statements by our use of the words believes, anticipates, expects, intends, plan, forecast, guidance and similar expressions. For statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Although we believe that the plans and expectations reflected in or suggested by our forward-looking statements are reasonable, those statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, many of which are beyond our control, cannot be foreseen and reflect future business decisions that are subject to change. Accordingly, we cannot guarantee you that our plans and expectations will be achieved. Our actual revenues, revenue growth rates and margins, other results of operations and shareholder values could differ materially from those anticipated in our forward-looking statements as a result of many known and unknown factors, many of which are beyond our ability to predict or control. These factors include, but are not limited to, those set forth in Item 1A Risk Factors of this report, those set forth elsewhere in this report and those set forth in our press releases, reports and other filings made with the Securities and Exchange Commission, or SEC. These cautionary statements qualify all of our forward-looking statements, and you are cautioned not to place undue reliance on these forward-looking statements.

Our forward-looking statements speak only as of the date they are made and should not be relied upon as representing our plans and expectations as of any subsequent date. While we may elect to update or revise forward-looking statements at some time in the future, we specifically disclaim any obligation to publicly release the results of any revisions to our forward-looking statements.

Where to Find More Information

We file annual and quarterly reports, proxy statements and other information with the SEC. You may read and print materials that we have filed with the SEC from their website at www.sec.gov. In addition, certain of our SEC filings, including our annual report on Form 10-K, our quarterly reports on Form 10-Q 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. Certain materials relating to our corporate governance, including our senior financial officers' code of ethics, are also available in the investor information section of our website. Copies of our filings, specified exhibits and corporate governance materials are also available, free of charge, by writing or calling us using the address or phone number on the cover of this Form 10-K. We are not including the information on our website as a part of, or incorporating it by reference into, this report.

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Our SEC filings may also be viewed and copied at the following SEC public reference room, and at the offices of the New York Stock Exchange, where our common stock is quoted under the symbol GPN .

SEC Public Reference Room

100 F Street, N.E.

Washington, DC 20549

(You may call the SEC at 1-800-SEC-0330 for further information on the public reference room.)

New York Stock Exchange, Inc.

20 Broad Street

New York, NY 10005

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PART I

ITEM 1 BUSINESS

General Developments

Financial Highlights

In the year ended May 31, 2006, or fiscal 2006, revenue increased \$123.8 million or 16% to \$908.1 million from \$784.3 million in the year ended May 31, 2005, or fiscal 2005. This revenue growth was primarily due to growth in our North American direct merchant services offerings and our money transfer segment. Consolidated operating income was \$201.1 million for fiscal 2006, compared to \$160.1 million for fiscal 2005, which resulted in an increase in operating margin to 22.1% for fiscal 2006 from 20.4% for fiscal 2005. Net income increased \$32.6 million, or 35%, to \$125.5 million in fiscal 2006 from \$92.9 million in the prior year, resulting in a \$0.37 increase in diluted earnings per share to \$1.53 in fiscal 2006 from \$1.16 in fiscal 2005.

Merchant services segment revenue increased \$100.6 million or 15% to \$788.5 million in fiscal 2006 from \$687.9 million in fiscal 2005, and money transfer segment revenue increased \$23.1 million or 24% to \$119.6 million in fiscal 2006 from \$96.5 million in fiscal 2005. Merchant services segment operating income increased \$40.2 million or 22% to \$224.2 million in fiscal 2006 from \$184.0 million in fiscal 2005, with operating margins of 28% and 27% for fiscal 2006 and 2005, respectively. Money transfer segment operating income increased \$2.1 million or 13% to \$18.7 million in fiscal 2006 from \$16.6 million in fiscal 2005, with operating margins of 16% and 17% for fiscal years 2006 and 2005, respectively.

The consolidated operating income amounts reflect restructuring and other charges of \$1.9 million, or \$0.01 per diluted share, and \$3.7 million, or \$0.03 per diluted share, in fiscal 2006 and fiscal 2005, respectively. Restructuring and other charges represented 0.2% and 0.5% of revenue in the fiscal year 2006 and 2005, respectively. These charges primarily relate to severance and facility closure costs due to elimination of redundant activities and facilities.

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

Asia-Pacific Joint Venture

On September 8, 2005, we entered into an agreement to form a joint venture with The Hongkong and Shanghai Banking Corporation Limited, or HSBC, to provide payment processing services to merchants in the Asia-Pacific region. This transaction closed on July 24, 2006. Under the terms of the agreement, we paid HSBC \$67.2 million in cash to acquire a fifty-six percent ownership interest in the joint venture. We expect that this controlling interest will allow us to consolidate the results of operations of the joint venture in our consolidated statements of income. Forward looking statements in this Report on Form 10-K include our expectations of the joint venture's results of operations.

Data Center Relocation

We completed the relocation of our primary data center to our Atlanta headquarters by the end of the second quarter of fiscal 2006. The primary purpose of the relocation was to comply with an IRS requirement regarding our facility lease with NDCHealth, previously known as National Data Corporation, or NDC, and currently a subsidiary of Per-Se Technologies, Inc. NDC was our landlord and former parent company. We believe this relocation was consistent with the expectations of the IRS regarding the tax-free nature of the spin-off from NDCHealth which occurred on January 31, 2001.

Stock Split

On July 19, 2005, our board of directors authorized a two-for-one stock split effected in the form of a stock dividend. As a result of the stock split, each shareholder received one additional share of our common stock for

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each share of common stock held of record on October 14, 2005. The shares resulting from the split were distributed by our transfer agent on October 28, 2005. The stock split increased the number of shares of our common stock outstanding at that time from approximately 39 million to approximately 78 million shares. This stock split has been given retroactive effect in the accompanying consolidated financial statements and notes to consolidated financial statements for all periods presented. When the split was effected, the exercise price of all outstanding stock options was reduced by 50% and the numbers of options both outstanding and remaining for future grants increased by 100%.

Business Description

We are a leading payment processing and consumer money transfer company. As a high-volume processor of electronic transactions, we enable merchants, multinational corporations, financial institutions, consumers, government agencies and other profit and non-profit business enterprises to facilitate payments to purchase goods and services or further other economic goals. Our role is to serve as an intermediary in the exchange of information and funds that must occur between parties so that a payment transaction or money transfer can be completed. Including our time as part of NDC, we have provided payment processing services since 1967. We were incorporated in Georgia as Global Payments Inc. in September 2000, and we spun off from NDC on January 31, 2001.

We market our products and services throughout the United States, Canada and Europe, and we also conduct business in Latin America, Morocco and the Philippines through our money transfer offerings. We operate in two business segments, merchant services and money transfer, and we offer various products through these segments. Our merchant services segment targets customers in many vertical industries, including financial institutions, government, professional services, restaurants, universities, utilities, gaming, retail and health care. Our money transfer segment primarily targets immigrants in the United States and Europe. See Note 11 in the notes to consolidated financial statements for additional segment information.

Total revenues from our merchant services and money transfer segments, by geography and sales channel, are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(in thousands)		
Domestic direct	\$ 481,273	\$ 410,047	\$ 346,974
Canada	208,126	175,190	155,468
Central and Eastern Europe	47,114	40,598	10,216
Domestic indirect and other	51,987	62,033	74,159
Merchant services	<u>788,500</u>	<u>687,868</u>	<u>586,817</u>
Domestic	109,067	91,448	42,503
Europe	10,489	5,015	
Money transfer	<u>119,556</u>	<u>96,463</u>	<u>42,503</u>
Total revenue	<u>\$ 908,056</u>	<u>\$ 784,331</u>	<u>\$ 629,320</u>

Merchant Services Segment

Our offerings in the merchant services segment provide merchants, independent sales organizations, or ISOs, and financial institutions with credit and debit card transaction processing, as well as check-related services. We use two basic business models to market our merchant services offerings. One model, referred to as direct merchant services, features a salaried and commissioned sales force, ISOs and independent sales representatives, all of whom sell our end-to-end services directly to merchants. Our other model, referred to as indirect merchant services, provides the same basic products and services as direct merchant services,

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primarily to financial institutions and ISOs on an unbundled basis, that in turn resell our products and services to merchants. We also offer sales, installation, and servicing of ATM and point of sale, or POS, terminals and selected card issuing services, which are components of indirect merchant services, through Global Payments Europe, a.s., formerly known as MUZO, which is our subsidiary based in the Czech Republic. Our direct merchant services are marketed in the United States and Canada and our indirect merchant services are marketed in the United States, Canada and Central and Eastern Europe.

Direct merchant services revenue is generated on services primarily priced as a percentage of transaction value, whereas indirect merchant services revenue is generated on services primarily priced on a specified amount per transaction. In both merchant services models, we also charge for other processing fees unrelated to the number of transactions or the transaction value.

Direct Merchant Services

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

Credit and Debit Card Transaction Processing

Credit and debit card transaction processing includes VISA, MasterCard and on-line and off-line debit card processing. Credit and debit card processing involves a consumer or cardholder acquiring goods or services from a merchant and using a credit or debit card as the form of payment. The term merchant generally refers to any organization that accepts credit or debit cards for the payment of goods and services, such as retail stores, including physical locations and internet sites, mail order or telephone order outlets, restaurants, universities, and government agencies. We are the processing intermediary between the merchant and the card associations, debit networks, and financial institutions.

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

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

The card associations and debit networks consist of members, generally financial institutions, who establish uniform regulations that govern much of the industry. During a typical card transaction, the merchant and the card issuer do not interface directly with each other, but instead

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rely on merchant acquirers. A merchant acquirer can be an independent processor that acts with a member sponsor, such as Global Payments, or the merchant acquirer can be a bank itself. We perform a series of services including authorization, electronic draft capture,

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file transfers to facilitate the funds settlement and certain exception-based, back office support services such as chargeback and retrieval resolution. The following is a more detailed description of credit and debit card transactions:

A card transaction begins when a cardholder presents a card for payment at a merchant location and the merchant swipes the card's magnetic strip through a POS terminal card reader, which may be provided by Global Payments. Alternatively, card and transaction information may be captured and transmitted to our network through a POS device by one of a number of products that we offer directly or through a VAR. For a credit card transaction, authorization services generally refer to the process in which the card issuer indicates whether a particular credit card is authentic and whether the impending transaction value will cause the cardholder to exceed defined limits. The terminal electronically records sales draft information, such as the credit card identification number, transaction date, and dollar value of the goods or services purchased. Debit card payments differ slightly from traditional credit card transactions in that the cardholder is required to have sufficient funds available in a deposit account at the time of the transaction, or the debit card transaction will not be authorized. PIN-based or on-line debit transactions are sent through a debit network, while signature-based, off-line debit, or check card transactions are sent through card associations and require a signature at the time of purchase. Also, PIN-based or on-line debit transactions typically deduct the purchase amount from the cardholder's deposit account within a day of the purchase, depending on the time of the purchase. Signature-based, off-line debit, or check card transactions typically debit the cardholder's deposit account two to three days after the purchase, although the funds are held with a memo posted to the cardholder's bank account. A credit card posts to a cardholder's account, reducing the available credit limit in a similar manner.

After the card and transaction information is captured by the POS device, the terminal automatically either dials a pre-programmed phone number or otherwise connects to our network, such as through the internet or a leased line, in order to receive authorization of the transaction. We route the request to the applicable card association or debit network. The card association or debit network forwards the authorization request to the card issuer, who determines a response based on the status of the cardholder's account. The response is returned to the merchant's terminal via the same communication network. This entire authorization and response process occurs within seconds from the time the merchant swipes the cardholder's card through the POS terminal card reader.

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

In order to provide credit card transaction processing services, we must be designated as a certified processor by either MasterCard or VISA and as a Merchant Service Provider by MasterCard or an Independent Sales Organization by VISA. These designations are dependent upon member clearing banks of either organization sponsoring us and our adherence to the standards of the VISA and MasterCard associations. As an independent merchant acquirer, we have four primary financial institution sponsors in the United States and Canada with whom we have sponsorship or depository and processing agreements. These agreements allow us to route transactions under the member banks' control and identification numbers, referred to as BIN for VISA and ICA for MasterCard or BIN/ICA collectively, to clear credit card transactions through VISA and MasterCard. The member financial institutions of VISA and MasterCard, some of which are our competitors, set the standards with which we must comply.

Funds settlement refers to the process of transferring funds for sales and credits between cardholders and merchants. Depending on the type of transaction, either the credit card interchange system or the debit network is used to transfer the information and funds between the electronic transaction payment processor's member sponsor, or the member, and card issuer to complete the link between merchants and card issuers. We use our network telecommunication infrastructure to deliver funding files to the member, which creates a file to fund the

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merchants over the Federal Reserve's Automated Clearing House system in the United States, or the Automated Clearing Settlement System or the Large Value Transfer System in Canada. In our United States portfolio and in most of our Canadian portfolio, merchant funding primarily occurs after the member receives the funds from the card issuer through the card associations. For certain of the Canadian managed merchant accounts and large accounts, the member funds the merchants before the member receives the net settlement funds from the card associations, creating a net settlement asset at the member. Timing differences, interchange expenses, merchant-related reserves, and exception items cause differences between the amount the member receives from the card associations and the amount funded to the merchants. The standards of the card associations restrict us from performing funds settlement or accessing merchant settlement funds, and, instead, require that these funds be in the possession of the member until the merchant is funded. However, in practice and in accordance with the terms of our sponsorship agreements with our members, we follow a net settlement process whereby, if the member's funding obligation to the merchant precedes the incoming amount from the card associations, the amount of that net receivable position is advanced to the member. Conversely, if the incoming amount from the card associations precedes the member's funding obligation to the merchant, we temporarily hold the surplus on behalf of the member, in a joint deposit account or in an account at the member bank. Management believes that this practice is also commonly followed by other independent processors as the members normally attempt to have a zero balance in their owned bank accounts at the end of each day. Each participant in the transaction process receives compensation for its services.

As an illustration, on a \$100.00 credit card transaction, the card association may fund the member \$98.50 after retaining a hypothetical \$1.50 referred to as an interchange fee or interchange expense. The card associations have published more than 100 different interchange expense rate arrangements. The card issuer seeks reimbursement of \$100.00 from the cardholder in the cardholder's monthly credit card bill. The member would, in turn, pay the merchant \$100.00. The net settlement after this transaction would require us to advance to the member \$1.50. After the end of the month, we would bill the merchant a percentage of the transaction, or discount, to cover the full amount of the interchange fee and our net revenue from the transaction. If our net revenue from the merchant in the above example was 50 basis points, we would bill the merchant \$2.00 at the end of the month for the transaction, reimburse ourselves for approximately \$1.50 in interchange fees advanced to the member and retain \$0.50 as our net revenue for the transaction. Our gross profit on the transaction reflects the net revenue less operating expenses, including the network and systems cost to process the transaction and commissions paid to our sales force or ISOs.

If it is determined that the merchant in the above transaction is to be placed on reserve or delay, then collateral is held to minimize contingent liabilities to us associated with charges properly reversed by cardholders, otherwise known as chargebacks. This contingent liability arises from our performance guarantee to the member sponsor. The merchant funds are held as a cash deposit to minimize this risk of loss associated with the transactions processed. On behalf of the member, we hold all or a portion of the deposit for the convenience of the member. In this situation, the member would net fund us \$98.50, the same amount the member received from the card association. This amount is comprised of the \$100.00 that would have been funded by the member to the merchant, less the same \$1.50 for the interchange expense.

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

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

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merchant services customers are liable for any charges properly reversed by the cardholder. In the event, however, that we are not able to collect such amount from the merchants, due to merchant fraud, insolvency, bankruptcy or any other reason, we may be liable for any such reversed charges. We utilize a number of systems and procedures to manage merchant risk. Our risk management services include credit underwriting, credit scoring, fraud control, account processing, and collections. In addition, we may require cash deposits, guarantees, letters of credit and other types of collateral by certain merchants to minimize any such contingent liability. Notwithstanding our risk management activities, we have historically experienced losses due to merchant defaults.

Check Services

Our check products offer merchant customers risk management alternatives, in the case of our verification and recovery offerings, or risk elimination, in the case of our guarantee offerings, by leveraging our internal and external databases of checkwriters to help decide whether the merchant should accept a check as the form of payment from a particular checkwriter.

Check guarantee services include comprehensive check verification and guarantee services designed for a merchant's specific needs and risk adversity. This service offering guarantees payment of all checks that are electronically verified, primarily using POS check readers and our extensive databases, which allows merchants to expand their revenue base by applying less stringent requirements when accepting checks from consumers. If a verified check is dishonored, our check guarantee service generally provides the merchant with reimbursement of the check's face value, and then we pursue collection of the check through our internal collection services. While we have the right to collect the full amount of the check from the checkwriter, we have historically recovered less than 100% of the guaranteed checks. To protect against this risk, we use verification databases that contain information on historical delinquent check writing activity and up-to-date consumer bank account status. We derive revenue for these services primarily by charging the merchant a percentage of the face value of each guaranteed check.

Check verification and recovery services are similar to those provided in the check guarantee service, except that these services do not guarantee payment of the verified checks. Check verification service provides a low-cost loss-reduction solution for merchants wishing to measure a customer's check worthiness quickly at the point of sale without incurring the additional expense of check guarantee services. We provide check recovery services for these customers upon their request. We derive revenues for these services primarily from the service fees collected from delinquent check writers, fees charged to merchants based on a transaction rate per verified check, and fees charged to merchants for specialized services, such as electronic re-deposits of dishonored checks.

In the specialized vertical market of gaming, our VIP Preferred proprietary software product provides the gaming industry with the tools necessary to establish revolving check cashing limits for the casinos' customers. VIP Preferred also offers an electronic check option, VIP Preferred e-Check, which eliminates the need for paper checks as part of the VIP Preferred suite of products. Further, our ATM Cash Advantage product allows the casinos' customers to cash a check at certain ATMs using a VIP Preferred Card. Lastly, our Player Cash Advantage product, formerly referred to as Cash and Win, allows the casinos' customers to complete credit card cash advances at either specialized kiosks within the casinos or at the casino cages. Our gaming products allow fast access to cash with high limits so that gaming establishments can increase the flow of money to the gaming floors and reduce risk. We derive revenue from our gaming products primarily based on a percentage of the transaction value.

Indirect Merchant Services

Through our indirect merchant services business model, we market unbundled products and services primarily to financial institutions and ISOs that in turn resell our products and services to merchants. The primary

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service offering in this business model is credit and debit card transaction processing. These products and services are identical with those offered under our direct merchant services business model. We primarily perform authorization, electronic draft capture and file transfer services for our indirect merchant services customers. In addition, we may perform merchant accounting and other back office services. The primary differences between indirect merchant services credit and debit card transaction processing and direct merchant services relate to funds settlement and financial institution sponsorship. Our indirect merchant services customers perform their own funds settlement and either have their own BIN/ICA or separate financial institution sponsorship. Since we are not party to the financial institution sponsorship, we are not potentially liable for any charges properly reversed by the cardholder.

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

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

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

Money Transfer Segment

Our money transfer segment provides consumer-to-consumer money transfer services. A majority of the revenue derived from our money transfer offering consists of our electronic money transfer services marketed under our DolEx brand to the growing population of first and second generation Latin Americans living in the United States. This consumer segment regularly transfers money to family and friends living in Latin America. Following the Europhil acquisition in December 2004, we expanded our money transfer origination locations to Europe and our settlement locations to Morocco, the Philippines, and new destinations in Latin America.

As of May 31, 2006, we operated 835 originating retail branch locations in the United States and 40 in Europe, and have settlement arrangements with more than 12,000 bank, exchange house, and retail locations worldwide. DolEx was founded in 1996, primarily by its current management team. The consumer-to-consumer money transfer service offering is primarily driven by transaction levels and unit pricing. Our business strategy is to competitively price our services, provide a timely and quality service, diversify our services through our customer loyalty program and increase our physical presence through additional originating branch locations and expansion into other settlement countries. We believe this strategy will further expand our customer base and increase our market share.

In a typical money transfer transaction, a customer visits one of our originating branch locations and pays a fee based on the nature and amount of the transaction performed on the customer's behalf. In addition, the customer is quoted a retail exchange rate when the money transfer transaction is requested. The customer will receive a receipt that includes the amount the beneficiary will receive, the retail exchange rate,

money transfer

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fee, settlement location and total amount that was remitted to us. Our call center provides an additional service for recipients in Mexico by contacting the beneficiary to provide an identification number, the settlement location, and the transfer amount to enable the recipient to claim the transferred funds once the transaction is completed at the originating branch location. We earn additional revenue based on the difference between the retail exchange rate that is quoted and the wholesale exchange rate when the currency is purchased, which is in much larger denominations than the individual customer's transaction. On each business day, we determine the amount of currency needed to settle daily, bid the wholesale exchange rates based on the amount needed and purchase currency at the best available rates.

Employees

As of May 31, 2006, we had 4,277 employees. Many of our employees are highly skilled in technical areas specific to electronic transaction payment processing and money transfer. We believe that our current and future operations depend substantially on retaining our key technical employees.

Competition

Merchant Services Segment

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

Based on industry publications such as *The Nilson Report*, dated April 2006, we are a leading mid-market and small-market merchant acquirer in the United States. According to that report, one of our competitors, First Data Corporation and its affiliates, is the largest electronic transaction payment processor in the United States.

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

We service all industry segments and specialize in the direct merchant services, mid-market and small-market segments in the United States and the large and mid-market segments in Canada. We define mid-market as a merchant with an average of \$150,000 to \$300,000 in annual VISA and/or MasterCard volume. Many of our ISO relationships provide merchant referrals in the small-market segment, with average annual VISA and/or MasterCard volumes below \$150,000. National accounts or large-market merchants that we serve typically range between \$3.0 million to

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\$10.0 million in annual VISA and/or MasterCard volume, although we serve a limited number of merchants with more than \$100 million in such volume, and a select few merchants with more than \$1 billion in such volume.

Our primary strategy to distinguish ourselves from our competitors focuses on offering a variety of electronic transaction payment processing solutions to our customers. These enhanced services involve vertical

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market functionality and sophisticated reporting features that add value to the information obtained from our electronic transaction payment processing databases. We believe that our knowledge of these specific markets, the size and effectiveness of our dedicated sales force, affiliations with trade associations, agent banks and VARs, our ability to offer specific, integrated solutions to our customers, including hardware, software, processing, and network facilities, and our flexibility in packaging these products are positive factors that enhance our competitive position.

Money Transfer Segment

Our primary competitors in the money transfer business are more diversified with a broader international reach. We believe our service offering ranks third in dollar volume transferred from the United States to Latin America. In addition, many of our competitors use agency agreements with third parties at the point of sale to collect funds and input transaction data. We generally use a fixed-cost, branch-owned model at the point of sale rather than a variable-cost, agent-based model. We believe this model enhances our growth strategy, as higher transaction levels may provide significant future leverage.

The most significant competitive factors relating to our consumer-to-consumer money transfer offering include price, reliability, customer service, functionality, the breadth and effectiveness of our distribution channel, and value-added features. These competitive factors will continue to change as new distribution channels and alternative payment solutions are developed by our competitors and us. For instance, we believe the electronic money transfer offerings may evolve from a cash-based solution to a card-based solution at the origination and settlement points in the transaction process. Our ability to compete in the marketplace effectively depends on our ability to adapt to these technological and competitive advancements. We believe our knowledge of the industry, our relative size, and our branch-owned model give us an advantage over our competitors when adapting to these changes.

Industry Overview and Target Markets

Industry Overview

Payment processing service providers offer high-volume electronic transaction payment processing and support services directly to financial institutions, merchants, multinational corporations, government agencies, and ISOs. Generally, the payment processing market in the United States and Canada continues to transition from traditional financial institution providers to independent merchant acquirers, such as Global Payments. We believe merchants seek more efficient distribution channels, as well as increased technological capabilities required for the rapid and efficient creation, processing, handling, storage, and retrieval of information.

In Europe, financial institutions remain the dominant provider of payment processing services to merchants, although the outsourcing of back-end processing services to third party service providers is becoming more prevalent. Throughout all markets, processing services have become increasingly complex, requiring significant capital commitments to develop, maintain and update the systems necessary to provide these advanced services at a competitive price.

Global Payments also provides electronic money transfer services to consumers in the United States and Europe who send money to Latin America, Morocco, and the Philippines. Unlike our major competitors in the Latin American corridor that operate an agent-based network, we generally utilize a branch-owned network strategy at the point of sale. We believe that this differentiation allows us to be more flexible and

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competitive when setting our prices and introducing new products and services.

As a result of continued growth in our industry, several large merchant acquirers, including us, have expanded operations both domestically and internationally. This expansion has come in the form of acquisitions and the creation of alliances and joint ventures. We believe that the electronic payment transaction processing and money transfer industries will continue to consolidate as banks and independent processors that do not have the necessary infrastructure to participate in a highly competitive environment look to exit the business.

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We believe that VISA, MasterCard and Interac intend to migrate to cards containing chip technology in the Canadian market over the coming years. Chip technology provides the ability to process payment transactions securely by protecting the cardholder information in an encrypted and confidential manner. The chip is difficult to copy and has the additional capacity to be personalized by a card issuer, including the ability to be programmed with spending and usage limits, making it possible to authorize some transactions off-line. Chip technology can also help enable a variety of additional card features including applications such as loyalty, access control, rewards, and public transit passes. We expect that it will take multiple years for all participants to implement the computer equipment and merchant terminals necessary to accept and process the chip card compliant transactions in the Canadian marketplace. We have been working to develop a long-term plan to ensure our merchants will benefit from the migration to chip technology in the Canadian market.

We believe the number of electronic transactions will continue to grow in the future and that an increasing percentage of these transactions will be processed through emerging technologies. To help our customers reduce their transaction costs and speed up the transaction approval process, we have integrated new technologies into our service offerings such as Internet protocol communications and check truncation or conversion at the point of sale. If new technologies like radio frequency identification or contactless payment cards continue to evolve and are desired by merchants and consumers, we plan to continue developing new products and services that will exploit the benefits that these new technologies can offer our customers. We also believe that new emerging markets will continue to develop in areas that have been previously dominated by paper-based transactions. Industries such as quick service restaurants, government, recurring payments, and business-to-business should continue to see transaction volumes migrate to more electronic-based settlement solutions. We believe that the continued development of new products and services and the emergence of new vertical markets will be a factor in the growth of our business for the foreseeable future.

Target Markets

We believe that significant global opportunities exist for continued growth in the application of electronic transaction payment processing and money transfer services. Although the United States accounts for the largest payment processing volume in the world, global expansion by financial institutions into new geographies and the increased recognition by governments of the ability of payment cards to facilitate economic growth are rapidly transforming the electronic commerce market into a global payments opportunity. Additionally, increased migration trends led by the rapid globalization of the economy are also leading the way for increased electronic money transfer opportunities.

The growth of retail credit card transactions, as well as the rapid growth in the utilization of debit cards, directly correlates with the historic growth of our business. According to *The Nilson Report* dated March 2006, worldwide annual VISA and MasterCard purchase volume increased 15% to over \$3.8 trillion in 2005.

The Nilson Report dated February 2006 estimates that more than \$1.7 trillion of annual consumer spending is charged using VISA and MasterCard cards in the United States, a \$0.2 trillion, or 13%, increase from its comparable February 2005 estimate of \$1.5 trillion. Based on figures reported in *The Nilson Report* dated April 2006, we also believe that over \$275 billion (U.S.) of annual Canadian consumer spending uses VISA, MasterCard or debit as the form of payment, representing an increase of \$43 billion (U.S.), or 18%, from the prior year estimate of \$232 billion. In Continental Europe, credit card utilization remains underdeveloped relative to two of the most developed credit markets in the world, the United States and United Kingdom.

After the close of the joint venture with HSBC, we will begin processing in ten countries and territories in the Asia-Pacific region. This new market includes almost 40% of the world's population according to the *CIA World Factbook*. The gross domestic product of the countries and territories in this new market as a whole grew 10% per year on average between 1999 and 2003 according to the World Bank's World Development Indicators database as of April 2005. This new market comprises approximately 20% of the total Asia-Pacific VISA and MasterCard purchase volume according to *The Nilson Report* dated May 2005 and 70% of the total Asia-Pacific population according to the *CIA World Factbook*, which leads us to believe there are significant, long-term growth opportunities for payment processing in this new market.

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Equally as attractive has been the increase in the number of international immigrants, which the United Nations Population Division estimates has increased from 75 million in 1960 to 191 million at the end of 2005. The World Bank estimates that approximately \$230 billion was remitted internationally worldwide in 2005 with a significant portion of the volume originating in the United States. In 2004, the Pew Hispanic Center estimated that approximately 40.4 million Latin American immigrants reside within the United States. According to the Inter-American Development Bank, the expected value of electronic money transfer remittances to the Latin American market in 2005 was estimated to be almost \$54 billion.

Strategy

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

Existing offerings

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

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

provide the best possible customer service at levels that exceed our competitors by investing in technology, training and product enhancements;

grow our direct merchant services market share in the United States, Canada, and Asia-Pacific region by concentrating on the small and mid-market merchant segments;

grow our indirect merchant service market share in Europe by concentrating on financial institutions with an existing or an emerging focus on merchant acquiring, card issuing, and credit scoring;

grow our consumer-to-consumer money transfer customer base and market share by expanding our branch and settlement locations and offering competitive pricing;

provide the latest, secure, enhanced products and services by developing value-added applications, enhancing existing products, and developing new systems and services to blend technology with our customer needs; and

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focus on potential domestic and international acquisitions or investments and alliances with companies that have high growth and operate in profitable sectors of payments-related industries through compatible products and services, and development and distribution capabilities.

International markets

We intend to focus on further diversification in international markets with high payments industry growth, such as Latin America, Europe and the Asia-Pacific region. We are evaluating these markets due to the following attractive characteristics:

currently low but growing credit and debit card utilization;

high level of immigrants who desire to send money using a non-bank provider;

the absence of a dominant merchant acquirer or processor; and

potential to satisfy our acquisition strategy.

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Infrastructure

Our focus on the existing infrastructure will center on attracting, developing and retaining talent to execute our strategy and migrate our systems to leading edge technology. We intend to continue systems integrations, primarily the consolidation of operating platforms.

Maximize corporate returns

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

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

migrating the Asia-Pacific back-end and front-end platforms away from HSBC and onto our own platforms;

continuing integration of Europhil's operations into our existing DoEx operations;

pursuing price reductions from our vendor relationships; and

streamlining of management positions and operating functions.

Compliance

Money Transfer Licensing and Regulations

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

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

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

Global Payments' European money transfer companies, created through Europhil, our acquisition in December 2004, are regulated by various governmental agencies in Spain, Belgium, and the United Kingdom in their money transfer activities. Prior to its acquisition by Global Payments, Europhil received approval from these governmental agencies to act as a money transfer service provider. These governmental agencies generally require Europhil to: (a) satisfy minimum share capital requirements; (b) periodically submit information regarding financial results, changes in corporate documentation or ownership, insurance, and other relevant

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information; (c) register and maintain transaction information; (d) maintain adequate insurance coverage; (e) ensure the transparency of the conditions of the transactions to its customers; (f) implement safeguards and restrictions to prevent money laundering; and (g) subject itself to periodic audits.

In addition, the consumer-to-consumer money transfer service offerings are subject to regulation in the settlement countries in which DoEx and Europhil offer their services. These regulations may include limitations on