GLOBAL PAYMENTS INC
Form 10-Q
January 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 30, 2011

OR

o 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	58-2567903
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10 Glenlake Parkway, North Tower, Atlanta, Georgia	30328
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (770) 829-8000

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

The number of shares of the issuer's common stock, no par value outstanding as of January 5, 2012 was 78,360,260.

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For the quarterly period ended November 30, 2011

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended November 30,			
	2011		2010	
Revenues	$530,505		$443,526	
Operating expenses:				
Cost of service	185,931		154,205	
Sales, general and administrative	247,994		206,178	
	433,925		360,383	
Operating income	96,580		83,143	
Other income (expense):				
Interest and other income	2,259		4,072	
Interest and other expense	(4,878	)	(4,299	)
	(2,619	)	(227	)
Income from continuing operations before income taxes	93,961		82,916	
Provision for income taxes	(25,812	)	(24,546	)
Income from continuing operations	68,149		58,370	
Loss from discontinued operations, net of tax	—		(487	)
Net income including noncontrolling interests	68,149		57,883	
Less: Net income attributable to noncontrolling interests, net of income tax provision of $1,077 and $1,010, respectively	(6,968	)	(4,378	)
Net income attributable to Global Payments	$61,181		$53,505	
Amounts attributable to Global Payments:				
Income from continuing operations	$61,181		$53,992	
Loss from discontinued operations, net of tax	—		(487	)
Net income attributable to Global Payments	$61,181		$53,505	
Basic earnings per share attributable to Global Payments:				
Income from continuing operations	$0.78		$0.68	
Loss from discontinued operations	—		(0.01	)
Net income attributable to Global Payments	$0.78		$0.67	
Diluted earnings per share attributable to Global Payments:				
Income from continuing operations	$0.78		$0.67	
Loss from discontinued operations	—		—	
Net income attributable to Global Payments	$0.78		$0.67	
Dividends per share	$0.02		$0.02	

See Notes to Unaudited Consolidated Financial Statements.

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

	Six Months Ended November 30,	
	2011	2010
Revenues	$1,073,276	$883,665
Operating expenses:		
Cost of service	377,467	305,246
Sales, general and administrative	490,619	413,168
	868,086	718,414
Operating income	205,190	165,251
Other income (expense):		
Interest and other income	4,760	5,608
Interest and other expense	(8,965)	(9,140)
	(4,205)	(3,532)
Income from continuing operations before income taxes	200,985	161,719
Provision for income taxes	(60,755)	(49,527)
Income from continuing operations	140,230	112,192
Loss from discontinued operations, net of tax	—	(515)
Net income including noncontrolling interests	140,230	111,677
Less: Net income attributable to noncontrolling interests, net of income tax provision of $2,935 and $1,305, respectively	(15,075)	(8,804)
Net income attributable to Global Payments	$125,155	$102,873
Amounts attributable to Global Payments:		
Income from continuing operations	$125,155	$103,388
Loss from discontinued operations, net of tax	—	(515)
Net income attributable to Global Payments	$125,155	$102,873
Basic earnings per share attributable to Global Payments:		
Income from continuing operations	$1.58	$1.30
Loss from discontinued operations	—	(0.01)
Net income attributable to Global Payments	$1.58	$1.29
Diluted earnings per share attributable to Global Payments:		
Income from continuing operations	$1.57	$1.29
Loss from discontinued operations	—	(0.01)
Net income attributable to Global Payments	$1.57	$1.28
Dividends per share	$0.04	$0.04

See Notes to Unaudited Consolidated Financial Statements.

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

	November 30, 2011 (Unaudited)	May 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$770,860	$1,354,285
Accounts receivable, net of allowances for doubtful accounts of $548 and $472, respectively	162,643	166,540
Claims receivable, net of allowances for losses of $4,169 and $3,870, respectively	1,024	914
Settlement processing assets	206,642	280,359
Inventory	11,790	7,640
Deferred income taxes	2,893	2,946
Prepaid expenses and other current assets	34,558	35,291
Total current assets	1,190,410	1,847,975
Goodwill	741,081	779,637
Other intangible assets, net of accumulated amortization of $214,435 and $197,066, respectively	299,680	341,500
Property and equipment, net of accumulated depreciation of $161,672 and $147,670, respectively	258,041	256,301
Deferred income taxes	96,508	104,140
Other	28,619	20,978
Total assets	$2,614,339	$3,350,531
LIABILITIES AND EQUITY		
Current liabilities:		
Lines of credit	$225,676	$270,745
Current portion of long-term debt	87,962	85,802
Accounts payable and accrued liabilities	206,420	241,578
Settlement processing obligations	270,290	838,565
Income taxes payable	17,076	7,674
Total current liabilities	807,424	1,444,364
Long-term debt	203,222	268,217
Deferred income taxes	115,157	116,432
Other long-term liabilities	54,788	49,843
Total liabilities	1,180,591	1,878,856
Commitments and contingencies (See Note 11)		
Redeemable noncontrolling interest	139,934	133,858
Equity:		
Preferred stock, no par value; 5,000,000 shares authorized and none issued	—	—
Common stock, no par value; 200,000,000 shares authorized; 78,355,001 and 80,334,781 issued and outstanding at November 30, 2011 and May 31, 2011, respectively (see Note 1)	—	—
Paid-in capital (see Note 1)	342,914	419,591
Retained earnings (see Note 1)	790,532	685,624
Accumulated other comprehensive income	12,909	79,320
Total Global Payments shareholders’ equity	1,146,355	1,184,535
Noncontrolling interest	147,459	153,282

Total equity	1,293,814	1,337,817
Total liabilities and equity	$2,614,339	$3,350,531

See Notes to Unaudited Consolidated Financial Statements

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

	Six Months Ended November 30, 2011	2010
Cash flows from operating activities:		
Net income including noncontrolling interests	$140,230	$111,677
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of property and equipment	23,444	19,082
Amortization of acquired intangibles	24,796	15,646
Provision for operating losses and bad debts	13,061	10,146
Share-based compensation expense	8,425	7,690
Deferred income taxes	5,915	3,287
Other, net	(100)	(3,556)
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	3,897	(17,549)
Claims receivable	(7,880)	(8,095)
Settlement processing assets and obligations, net	(499,849)	(239,970)
Inventory	(4,212)	1,954
Prepaid expenses and other assets	62	(4,600)
Accounts payable and other accrued liabilities	(31,257)	18,990
Income taxes payable	9,402	24,382
Net cash used in operating activities	(314,066)	(60,916)
Cash flows from investing activities:		
Business and intangible asset acquisitions, net of cash acquired	(7,000)	(3,488)
Capital expenditures	(35,146)	(51,709)
Preliminary settlement of working capital adjustments from disposition of business	—	(1,921)
Net decrease in financing receivables	1,203	991
Net cash used in investing activities	(40,943)	(56,127)
Cash flows from financing activities:		
Net (payments) borrowings on lines of credit	(45,069)	101,694
Proceeds from issuance of long-term debt	71,374	4,410
Principal payments under long-term debt	(131,345)	(83,331)
Proceeds from stock issued under employee stock plans, net of repurchases	(768)	1,962
Repurchase of common stock	(99,604)	(14,900)
Tax benefit from employee share-based compensation	1,436	118
Distributions to noncontrolling interest	(4,660)	(4,385)
Dividends paid	(3,169)	(3,180)
Net cash (used in) provided by financing activities	(211,805)	2,388
Effect of exchange rate changes on cash	(16,611)	8,369
Decrease in cash and cash equivalents	(583,425)	(106,286)
Cash and cash equivalents, beginning of the period	1,354,285	769,946
Cash and cash equivalents, end of the period	$770,860	$663,660

See Notes to Unaudited Consolidated Financial Statements

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GLOBAL PAYMENTS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, except per share data)

					Accumulated Other Comprehensive Income (Loss)				
	Number of Shares	Paid-in Capital	Treasury Stock	Retained Earnings	Currency Translation Adjustments	Minimum Pension Liability	Total Global Payments Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance at May 31, 2011, as previously reported	80,335	$502,993	$(112,980)	$715,202	$82,159	$(2,839)	$1,184,535	$153,282	$1,337,817
Retrospective adjustment for the correction of an error (see Note 1)		(112,980)	112,980	—	—	—	—	—	—
Retrospective adjustment for the change in accounting method for the retirement of repurchased shares (see Note 1)		29,578	—	(29,578)	—	—	—	—	—
Balance at May 31, 2011, as adjusted		419,591	—	685,624	82,159	(2,839)	1,184,535	153,282	1,337,817
Comprehensive income:									
Net income including noncontrolling interests				125,155			125,155	9,533	134,688
Foreign currency translation adjustment, net of tax of $4,681					(66,411)		(66,411)	(10,696)	(77,107)
Total comprehensive income							58,744	(1,163)	57,581

Stock issued under employee stock plans, net	310	(768)					(768)		(768)
Tax benefit from employee share-based compensation, net		681					681		681
Share-based compensation expense		8,425					8,425		8,425
Distributions to noncontrolling interest							—	(4,660)	(4,660)
Redeemable noncontrolling interest valuation adjustment				(2,489)			(2,489)		(2,489)
Repurchase of common stock	(2,290)	(85,015)		(14,589)			(99,604)		(99,604)
Dividends paid ($0.04 per share)				(3,169)			(3,169)		(3,169)
Balance at November 30, 2011	78,355	$342,914	$—	$790,532	$15,748	$(2,839)	$1,146,355	$147,459	$1,293,814

See Notes to Unaudited Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, except per share data)

					Accumulated Other Comprehensive Loss				
	Number of Shares	Paid-in Capital	Treasury Stock	Retained Earnings	Currency Translation Adjustments	Minimum Pension Liability	Total Global Payments Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance at May 31, 2010, as previously reported	79,646	$460,747	(100,000)	$544,772	$(41,306)	$(2,949)	$861,264	$10,253	$871,517
Retrospective adjustment for the correction of an error (see Note 1)		(100,000)	100,000	—	—	—	—	—	—
Retrospective adjustment for the change in accounting method for the retirement of repurchased shares (see Note 1)		29,578	—	(29,578)	—	—	—	—	—
Balance at May 31, 2010, as adjusted		390,325	—	515,194	(41,306)	(2,949)	861,264	10,253	871,517
Comprehensive income:									
Net income including noncontrolling interests				102,873			102,873	4,068	106,941
Foreign currency translation adjustment, net of tax of $2,005					39,798		39,798		39,798
Total comprehensive income							142,671	4,068	146,739
Stock issued under employee	444	1,962					1,962		1,962

stock plans, net									
Tax benefit deficiency from employee share-based compensation, net		(1,027)					(1,027)		(1,027)
Share-based compensation expense		7,690					7,690		7,690
Distributions to noncontrolling interest								(4,385)	(4,385)
Redeemable noncontrolling interests valuation adjustment				(7,871)			(7,871)		(7,871)
Repurchase of common stock	(345)	(12,980)					(12,980)		(12,980)
Dividends paid ($0.04 per share)				(3,180)			(3,180)		(3,180)
Balance at November 30, 2010	79,745	$385,970	—	$607,016	$(1,508)	$(2,949)	$988,529	$9,936	$998,465

See Notes to Unaudited Consolidated Financial Statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business, consolidation and presentation— Global Payments Inc. is a high-volume processor of electronic transactions for merchants, multinational corporations, financial institutions, consumers, government agencies and other business 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 transaction can be completed. We were incorporated in Georgia as Global Payments Inc. in September 2000 and we spun-off from our former parent company on January 31, 2001. Including our time as part of our former parent company, we have been in business since 1967.

These unaudited consolidated financial statements include our accounts and those of our majority-owned subsidiaries and all intercompany balances and transactions have been eliminated. These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with Rule 10-01 of Regulation S-X.

In the opinion of our management, all known adjustments necessary for a fair presentation of the results of the interim periods have been made. These adjustments consist of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. We suggest that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the fiscal year ended May 31, 2011.

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

Correction of an error and change in accounting principle— During the three months ended August 31, 2011 we determined that our presentation of repurchased shares as a separate component of shareholders' equity ("Treasury stock") in previously issued financial statements was at variance with Georgia incorporation law. As such, our shares repurchased during fiscal year 2010 and the first quarter of fiscal 2011 should have been accounted for as constructively retired, and the cost of repurchased shares should have been charged to paid-in capital in accordance with our accounting policy at that time. As a result of this error, our previously reported balances of treasury stock and paid-in capital as of May 31, 2011 and 2010 were misstated. To correct this error we have restated our May 31, 2011 treasury stock and paid-in capital balances. This adjustment is reflected in our consolidated statements of changes in equity by eliminating treasury stock and reclassifying this balance to paid-in capital. The May 31, 2011 treasury stock balance of $113.0 million has been reclassified to reduce paid-in capital by $113.0 million. The May 31, 2010 treasury stock balance of $100.0 million has been reclassified to reduce paid-in capital by $100.0 million. The effect of these misstatements was limited to treasury stock and paid-in capital.

Effective June 1, 2011, we elected to change our method of accounting for the retirement of repurchased shares. We previously accounted for the retirement of repurchased shares by charging the entire cost to paid-in capital. Our new method of accounting allocates the cost of repurchased and retired shares between paid-in capital and retained earnings. We believe that this method is preferable because it more accurately reflects our paid-in capital balances by allocating the cost of the shares repurchased and retired to paid-in capital in proportion to paid-in capital associated with the original issuance of said shares. We reflected the application of this new accounting method retrospectively by adjusting prior periods. This change is limited to an increase to the beginning balance of paid-in capital and a decrease to beginning balance of retained earnings of $29.6 million at May 31, 2011 and 2010 and is reflected in our consolidated balance sheets and statements of changes in equity.

Revenue recognition— Our two merchant services segments primarily include processing solutions for credit cards, debit cards, and check-related services. Revenue is recognized as such services are performed. Revenue for processing services provided directly to merchants is recorded net of interchange fees charged by card issuing banks. The majority of our business model provides payment products and services directly to merchants as our end customers. We also provide similar products and services to financial institutions and a limited number of Independent Sales Organizations (ISOs) that, in turn, resell our products and services, in which case, the financial institutions and select ISOs are our end customers. The majority of merchant services revenue is generated on services priced as a percentage of transaction value or a specified fee per transaction, depending on card type. We also charge other fees based

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on specific services that are unrelated to the number of transactions or the transaction value. The majority of credit cards and signature debit cards, which are only a U.S. based card type, are based on a percentage of transaction value along with other related fees, while PIN debit cards are typically a fee per transaction.

Cash and cash equivalents— Cash and cash equivalents include cash on hand and all liquid investments with an initial maturity of three months or less when purchased. These amounts also include cash that we hold related to reserve funds collected from our merchants that serve as collateral ("Merchant Reserves") to minimize contingent liabilities associated with any losses that may occur under the merchant agreement. We record a corresponding liability in settlement processing assets and settlement processing obligations in our consolidated balance sheet. While this cash is not restricted in its use, we believe that designating this cash to collateralize Merchant Reserves strengthens our fiduciary standing with our member sponsors and is in accordance with guidelines set by the card networks. As of November 30, 2011 and May 31, 2011, our cash and cash equivalents included $360.1 million and $271.4 million, respectively, related to Merchant Reserves.

Our cash and cash equivalents include settlement related cash balances. Settlement related cash balances represent surplus funds that we hold on behalf of our member sponsors when the incoming amount from the card networks precedes the member sponsors' funding obligation to the merchant. Settlement related cash balances are not restricted; however, these funds are generally paid out in satisfaction of settlement processing obligations the following day. Please see Settlement processing assets and obligations below for further information.

Inventory— Inventory, which includes electronic point of sale terminals, automated teller machines, and related peripheral equipment, is stated at the lower of cost or fair value. Cost is determined by using the average cost method.

Settlement processing assets and obligations— We are designated as a Merchant Service Provider by MasterCard and an Independent Sales Organization by Visa. These designations are dependent upon member clearing banks ("Member") sponsoring us and our adherence to the standards of the networks. We have five primary financial institution sponsors in the United States, Canada, the United Kingdom, Spain, the Asia-Pacific region and the Russian Federation with whom we have sponsorship or depository and clearing agreements. These agreements allow us to route transactions under the member banks' control and identification numbers to clear credit card transactions through Visa and MasterCard. Visa and MasterCard set the standards with which we must comply. Certain of the member financial institutions of Visa and MasterCard are our competitors. In certain markets, we are members in various payment networks, allowing us to process and fund transactions without third-party sponsorship.

We also provide credit card transaction processing for Discover Financial Services or Discover Card ("Discover") and are designated as an acquirer by Discover. Our agreement with Discover allows us to acquire, process and fund transactions directly through Discover's network without the need of a financial institution sponsor. Otherwise, we process Discover transactions similarly to how we process MasterCard and Visa transactions. Discover publishes acquirer operating regulations, with which we must comply. We use our Members to assist in funding merchants for Discover transactions.

Funds settlement refers to the process of transferring funds for sales and credits between card issuers and merchants. Depending on the type of transaction, either the credit card interchange system or the debit network is used to transfer the information and funds between the Member and card issuer to complete the link between merchants and card issuers.

For transactions processed on our systems, we use our internal network telecommunication infrastructure to provide funding instructions to the Members who in turn fund the merchants. In certain of our markets, merchant funding primarily occurs after the Member receives the funds from the card issuer through the card networks creating a net settlement obligation on our balance sheet. In our other markets, the Member funds the merchants before the Member receives the net settlement funds from the card networks, creating a net settlement asset on our balance sheet. In certain markets in the Asia-Pacific region, the Member provides the payment processing operations and related support services on our behalf under a transition services agreement. In such instances, we do not reflect the related settlement processing assets and obligations in our consolidated balance sheet. The Member will continue to provide these operations and services until the integration to our platform is completed. After our integration, the Member will continue to provide funds settlement services similar to the functions performed by our Members in other markets at which point the related settlement assets and obligations will be reflected in our consolidated balance sheet.

Timing differences, interchange expense, Merchant Reserves and exception items cause differences between the amount the Member receives from the card networks and the amount funded to the merchants. The standards of the card networks restrict us from performing funds settlement or accessing merchant settlement funds, and, instead, require that these funds be in the possession

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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 generally follow a net settlement process whereby, if the incoming amount from the card networks precedes the Member's funding obligation to the merchant, we temporarily hold the surplus on behalf of the Member in our account at the Member bank and record a corresponding liability. Conversely, if the Member's funding obligation to the merchant precedes the incoming amount from the card networks, the amount of the Member's net receivable position is either subsequently advanced to the Member by us or the Member satisfies this obligation with its own funds. If the Member uses its own funds, the Member assesses a funding cost, which is included in interest and other expense on the accompanying consolidated statements of income. Each participant in the transaction process receives compensation for its services.

Settlement processing assets and obligations represent intermediary balances arising in our settlement process for direct merchants. Settlement processing assets consist primarily of (i) our receivable from merchants for the portion of the discount fee related to reimbursement of the interchange expense ("Interchange reimbursement"), (ii) our receivable from the Members for transactions we have funded merchants on behalf of the Members in advance of receipt of card association funding ("Receivable from Members"), (iii) our receivable from the card networks for transactions processed on behalf of merchants where we are a Member of that particular network ("Receivable from networks"), and (iv) exception items, such as customer chargeback amounts receivable from merchants ("Exception items"), all of which are reported net of (iv) Merchant Reserves held to minimize contingent liabilities associated with charges properly reversed by a cardholder ("Merchant Reserves"). Settlement processing obligations consist primarily of (i) Interchange reimbursement, (ii) our receivable from/liability to the Members for transactions for which we have received funding from the Members but have not funded merchants on behalf of the Members ("Receivable from (liability to) Members"), (iii) our liability to merchants for transactions that have been processed but not yet funded where we are a Member of that particular network ("Liability to merchants"), (iv) Exception items, (v) Merchant Reserves, (vi) the fair value of our guarantees of customer chargebacks (see Reserve for operating losses below), and (vii) the reserve for sales allowances. In cases in which the Member uses its own funds to satisfy a funding obligation to merchants that precedes the incoming amount from the card network, we reflect the amount of this funding as a component of "Liability to Members."

A summary of these amounts as of November 30, 2011 and May 31, 2011 is as follows:

	November 30, 2011	May 31, 2011
Settlement processing assets:	(in thousands)	
Interchange reimbursement	$26,899	$72,022
Receivable from Members	62,667	142,117
Receivable from networks	117,406	124,980
Exception items	959	4,456
Merchant Reserves	(1,289)	(63,216)
Total	$206,642	$280,359
	.	
Settlement processing obligations:		
Interchange reimbursement	$203,495	$212,069
Receivable from (liability to) Members	11,034	(718,650)
Liability to merchants	(133,552)	(129,806)
Exception items	12,943	12,394
Merchant Reserves	(358,857)	(208,195)
Fair value of guarantees of customer chargebacks	(3,817)	(3,102)
Reserves for sales allowances	(1,536)	(3,275)

Total	$(270,290)	$(838,565)

Reserve for operating losses— As a part of our merchant credit and debit card processing and check guarantee services, we experience merchant losses and check guarantee losses, which are collectively referred to as “operating losses.”

Our credit card processing merchant customers are liable for any charges or losses that occur under the merchant agreement.

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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 merchant-related reason, we may be liable for any such losses based on our merchant agreement. We require cash deposits, guarantees, letters of credit, and other types of collateral by certain merchants to minimize any such contingent liability. We also utilize a number of systems and procedures to manage merchant risk. We have, however, historically experienced losses due to merchant defaults.

We account for our potential liability for the full amount of the operating losses discussed above as guarantees. We estimate the fair value of these guarantees by adding a fair value margin to our estimate of losses. This estimate of losses is comprised of estimated incurred losses and a projection of future losses. Estimated incurred loss accruals are recorded when it is probable that we have incurred a loss and the loss is reasonably estimable. These losses typically result from chargebacks related to merchant bankruptcies, closures, or fraud. Estimated incurred losses are calculated at the merchant level based on chargebacks received to date, processed volume, and historical chargeback ratios. The estimate is reduced for any collateral that we hold. Accruals for estimated incurred losses are evaluated periodically and adjusted as appropriate based on actual loss experience. Our projection of future losses is based on an assumed percentage of our direct merchant credit card and signature debit card sales volumes processed, or processed volume. Historically, this estimation process has been materially accurate.

As of November 30, 2011 and May 31, 2011, $3.8 million and $3.1 million, respectively, have been recorded to reflect the fair value of guarantees associated with merchant card processing. These amounts are included in settlement processing obligations in the accompanying unaudited consolidated balance sheets. The expense associated with the fair value of the guarantees of customer chargebacks is included in cost of service in the accompanying consolidated statements of income. For the three months ended November 30, 2011 and 2010, we recorded such expenses in the amounts of $2.9 million and $1.2 million, respectively. For the six months ended November 30, 2011 and 2010, we recorded such expenses in the amounts of $5.3 million and $2.1 million, respectively.

In our check guarantee service offering, we charge our merchants a percentage of the gross amount of the check and guarantee payment of the check to the merchant in the event the check is not honored by the checkwriter’s bank in accordance with the merchant’s agreement with us. The fair value of the check guarantee is equal to the fee charged for the guarantee service, and we defer this fee revenue until the guarantee is satisfied. We have the right to collect the full amount of the check from the checkwriter but have not historically recovered 100% of the guaranteed checks. Our check guarantee loss reserve is based on historical and projected loss experiences. As of November 30, 2011 and May 31, 2011, we have a check guarantee loss reserve of $4.2 million and $3.9 million, respectively, which is included in net claims receivable in the accompanying consolidated balance sheets. For the three months ended November 30, 2011 and 2010, we recorded expenses of $3.4 million and $3.7 million, respectively. For the six months ended November 30, 2011 and 2010, we recorded expenses of $7.8 million and $7.9 million, respectively. The estimated check returns and recovery amounts are subject to the risk that actual amounts returned and recovered in the future may differ significantly from estimates used in calculating the receivable valuation allowance.

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

Property and equipment— Property and equipment are stated at amortized cost. Depreciation and amortization are calculated using the straight-line method, except for certain technology assets discussed below. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the useful life of the asset. Maintenance and repairs are charged to operations as incurred.

We develop software that is used in providing processing services to customers. Capitalization of internally developed software, primarily associated with operating platforms, occurs when we have completed the preliminary project stage, management authorizes the project, management commits to funding the project, it is probable the project will be completed and the project will be used to perform the function intended. The preliminary project stage consists of the conceptual formulation of alternatives, the evaluation of alternatives, the determination of existence of needed technology and the final selection of alternatives. Costs incurred prior to the completion of the preliminary project stage are expensed as incurred.

During fiscal 2010, we placed into service $54.9 million of hardware and software associated with our next generation technology processing platform, referred to as G2. The vision for this platform is to serve as a front-end operating environment for

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merchant processing and is intended to replace a number of legacy platforms that have higher cost structures. Depreciation and amortization associated with these costs is calculated based on transactions expected to be processed over the life of the platform. We believe that this method is more representative of the platform's use than the straight-line method. We are currently processing transactions on our G2 platform in seven markets in our Asia-Pacific region. As these markets represent a small percentage of our overall transactions, depreciation and amortization related to our G2 platform for the six months ended November 30, 2011 was not significant. Depreciation and amortization expense will increase as we complete migrations of other markets to the G2 platform.

Goodwill and other intangible assets— We completed our most recent annual goodwill impairment test as of January 1, 2011 and determined that the fair value of each of our reporting units is in excess of the carrying value. No events or changes in circumstances have occurred since the date of our most recent annual impairment test that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Goodwill is tested for impairment at the reporting unit level, and the impairment test consists of two steps. In the first step the reporting unit's carrying amount, including goodwill, is compared to its fair value. If the carrying amount of the reporting unit is greater than its fair value, goodwill is considered impaired and step two must be performed. Step two measures the impairment loss by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all the assets and liabilities of that unit (including unrecognized intangibles) as if the reporting unit had been acquired in a business combination. The excess of fair value over the amounts allocated to the assets and liabilities of the reporting unit is the implied fair value of goodwill. The excess of the carrying amount over the implied fair value is the impairment loss.

We have six reporting units: North America Merchant Services, UK Merchant Services, Asia Pacific Merchant Services, Central and Eastern Europe Merchant Services, Russia Merchant Services and Spain Merchant Services. We estimate the fair value of our reporting units using a combination of the income approach and the market approach. The income approach utilizes a discounted cash flow model incorporating management's expectations for future revenue, operating expenses, EBITDA, capital expenditures and an anticipated tax rate. We discount the related cash flow forecasts using our estimated weighted-average cost of capital for each reporting unit at the date of valuation. The market approach utilizes comparative market multiples in the valuation estimate. Multiples are derived by relating the value of guideline companies, based on either the market price of publicly traded shares or the prices of companies being acquired in the marketplace, to various measures of their earnings and cash flow. Such multiples are then applied to the historical and projected earnings and cash flow of the reporting unit in developing the valuation estimate.

Preparation of forecasts and the selection of the discount rates involve significant judgments about expected future business performance and general market conditions. Significant changes in our forecasts, the discount rates selected or the weighting of the income and market approach could affect the estimated fair value of one or more of our reporting units and could result in a goodwill impairment charge in a future period.

Other intangible assets primarily represent customer-related intangible assets (such as customer lists and merchant contracts), contract-based intangible assets (such as non-compete agreements, referral agreements and processing rights), and trademarks associated with acquisitions. Customer-related intangible assets, contract-based intangible assets and certain trademarks are amortized over their estimated useful lives of up to 30 years. The useful lives for customer-related intangible assets are determined based primarily on forecasted cash flows, which include estimates for the revenues, expenses, and customer attrition associated with the assets. The useful lives of contract-based intangible assets are equal to the terms of the agreements. The useful lives of amortizable trademarks are based on our plans to phase out the trademarks in the applicable markets.

Amortization for most of our customer-related intangible assets is calculated using an accelerated method. In determining amortization expense under our accelerated method for any given period, we calculate the expected cash flows for that period that were used in determining the acquired value of the asset and divide that amount by the expected total cash flows over the estimated life of the asset. We multiply that percentage by the initial carrying value of the asset to arrive at the amortization expense for that period. If the cash flow patterns that we experience are less favorable than our initial estimates, we will adjust the amortization schedule accordingly. These cash flow patterns are derived using certain assumptions and cost allocations due to a significant amount of asset interdependencies that exist in our business.

Impairment of long-lived assets— We regularly evaluate whether events and circumstances have occurred that indicate the carrying amount of property and equipment and finite-lived intangible assets may not be recoverable. When factors indicate that these long-lived assets should be evaluated for possible impairment, we assess the potential impairment by determining whether the

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carrying value of such long-lived assets will be recovered through the future undiscounted cash flows expected from use of the asset and its eventual disposition. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values or discounted cash flow analyses as applicable. We regularly evaluate whether events and circumstances have occurred that indicate the useful lives of property and equipment and finite-life intangible assets may warrant revision. In our opinion, the carrying values of our long-lived assets, including property and equipment and finite-life intangible assets, were not impaired at November 30, 2011 and May 31, 2011.

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

Our effective tax rates were 27.5% and 29.6% for the three months ended November 30, 2011 and 2010, respectively. Our effective tax rates were 30.2% and 30.6% for the six months ended November 30, 2011 and 2010, respectively. The effective tax rates for the six months ended November 30, 2011 and 2010 reflect adjustments to our UK deferred tax asset due to legislated enacted corporate tax rate reductions in the United Kingdom of 2% and 1%, respectively. Please see Note 5 – Income Tax for further information.

Fair value of financial instruments— We consider that the carrying amounts of our financial instruments, including cash and cash equivalents, receivables, lines of credit, accounts payable and accrued liabilities, approximate their fair value given the short-term nature of these items. Our term loans include variable interest rates based on the prime rate or London Interbank Offered Rate plus a margin based on our leverage position. At November 30, 2011, the carrying amount of our term loans approximates fair value. Our subsidiary in the Russian Federation has notes payable with interest rates ranging from 8.0% to 10.0% and maturity dates ranging from December 2011 through November 2016. At November 30, 2011, we believe the carrying amount of these notes approximates fair value. Please see Note 4 – Long-Term Debt and Credit Facilities for further information.

Financing receivables— Our subsidiary in the Russian Federation purchases Automated Teller Machines (ATMs) and leases those ATMs to our sponsor bank. We have determined these arrangements to be direct financing leases. Accordingly, we have $16.1 million and $18.9 million of financing receivables included in our November 30, 2011 and May 31, 2011 consolidated balance sheets, respectively.

There is an inherent risk that our customer may not pay the contractual balances due. We periodically review the financing receivables for credit losses and past due balances to determine whether an allowance should be recorded. Historically we have not had any credit losses or past due balances associated with these receivables, and therefore we do not have an allowance recorded. We have had no financing receivables modified as troubled debt restructurings nor have we had any purchases or sales of financing receivables.

Foreign currencies— We have significant operations in a number of foreign subsidiaries whose functional currency is their local currency. Gains and losses on transactions denominated in currencies other than the functional currencies are included in determining net income for the period. For the three months ended November 30, 2011 and 2010, our transaction gains and losses were insignificant.

The assets and liabilities of subsidiaries whose functional currency is a foreign currency are translated at the period-end rate of exchange. Income statement items are translated at the average rates prevailing during the period. The resulting translation adjustment is recorded as a component of other comprehensive income and is included in equity. Translation gains and losses on intercompany balances of a long-term investment nature are also recorded as a component of other comprehensive income.

Earnings per share— Basic earnings per share is computed by dividing reported earnings available to common shareholders by the weighted average shares outstanding during the period. Earnings available to common shareholders are the same as reported net income attributable to Global Payments for all periods presented.

Diluted earnings per share is computed by dividing reported earnings available to common shareholders by the weighted average shares outstanding during the period and the impact of securities that 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 assumed to have a dilutive effect on earnings per share. The diluted share base for the three months ended November 30, 2011 and 2010 excludes shares of 0.6 million and 1.0 million, respectively, related to stock options. The diluted share base for the six months ended November 30, 2011 and 2010 excludes

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shares of 0.4 million and 1.0 million, respectively, related to stock options. These shares were not considered in computing diluted earnings per share because including them would have had an antidilutive effect. No additional securities were outstanding that could potentially dilute basic earnings per share.

The following table sets forth the computation of diluted weighted average shares outstanding for the three and six months ended November 30, 2011 and 2010 (in thousands):

	Three Months Ended November 30,		Six Months Ended November 30,	
	2011	2010	2011	2010
Basic weighted average shares outstanding	78,348	79,701	79,207	79,642
Plus: dilutive effect of stock options and other share-based awards	528	643	624	670
Diluted weighted average shares outstanding	78,876	80,344	79,831	80,312

New accounting pronouncements— From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standards setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, our management believes that the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial statements upon adoption.

In December 2011, the FASB issued ASU 2011- 12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No 2011-05" ("ASU 2011-12"). The amendments in ASU 2011-12 defer the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. See below for the provisions of ASU 2011-05.

In December 2011, the FASB issued ASU 2011-11, "Disclosures About Offsetting Assets and Liabilities" ("ASU 2011-11"). The amendments in ASU 2011-11 require entities to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on an entity's financial position. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current literature or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. This standard will become effective for us beginning June 2013. The disclosures required by ASU 2011-11 will be applied retrospectively for all comparative periods presented. We are currently evaluating the impact of ASU 2011-11 on our settlement processing assets and obligations disclosures.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08"). The amendments in ASU 2011-08 will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This standard will become effective for us beginning June 2012. Early adoption is permitted. We are currently evaluating the impact of ASU 2011-08 on our goodwill impairment testing process.

In June 2011, the FASB issued ASU 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”). In accordance with ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. This standard will become effective for

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us beginning June 2012. We are currently evaluating the options provided in the standard for reporting comprehensive income.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" ("ASU 2011-04"). The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in ASU 2011-04 to result in a change in the application of the requirements in Topic 820. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. This ASU will become effective for us beginning in the quarter ended May 31, 2012. We do not expect an impact on our consolidated financial statements.

NOTE 2—BUSINESS ACQUISITIONS

Fiscal 2012

Please refer to Note 12 - Subsequent Events for information regarding acquisitions subsequent to November 30, 2011.

Fiscal 2011

Comercia Global Payments Entidad de Pago, S.L.

On December 20, 2010, we acquired a 51% controlling financial interest in Comercia Global Payments Entidad de Pago, S.L. ("Comercia"), a newly formed company into which Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") contributed its merchant acquiring business in Spain. "la Caixa" owns the remaining 49% of Comercia. We formed Comercia with "la Caixa", one of the largest retail banks in Spain, to provide merchant acquiring services to merchants in Spain. We purchased our share of Comercia for €125 million. The shareholders contributed a total of €6.4 million as initial capital to form Comercia. Our total investment in Comercia, including our 51% share of the initial capital was €128.3 million ($173.5 million as of the closing date). We manage the day-to-day operations of the corporation, control all major decisions and, accordingly, consolidate the corporation's financial results for accounting purposes effective with the closing date. In conjunction with the acquisition, "la Caixa" agreed to a twenty year marketing alliance agreement in which "la Caixa" will refer customers to Comercia for payment processing services in Spain and provide sponsorship into the card networks. We funded the purchase with a combination of existing cash resources in Europe and borrowings on our Corporate Credit Facility. During fiscal 2011, we expensed acquisition costs of $1.0 million associated with this transaction. These costs were recorded in selling, general and administrative expenses in the accompanying consolidated statements of income. The revenues and earnings of Comercia from the date of acquisition through the end of fiscal 2011were not significant to our fiscal 2011 consolidated results of operations.

The purchase price of Comercia was determined by analyzing the historical and prospective financial statements. This business acquisition was not significant to our consolidated financial statements and accordingly, we have not provided pro forma information relating to this acquisition.

The following table summarizes the purchase price allocation (in thousands):

Goodwill	$ 147,535
Customer-related intangible assets	96,100
Contract-based intangible assets	54,141
Working capital, net	8,476

Total assets acquired	306,252
Non-controlling interest	(132,738)
Net assets acquired	$ 173,514

The goodwill associated with the acquisition is deductible for tax purposes. The customer-related intangible assets have estimated amortization periods of 10 years. The contract-based intangible assets have estimated amortization periods of 20 years.

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Other

During fiscal year 2011, we acquired contract-based and customer related intangible assets in our United States merchant services channel for $3.5 million. These intangible assets are being amortized on a straight-line basis over their estimated useful lives of 5 to 7 years.

NOTE 3—GOODWILL AND INTANGIBLE ASSETS

As of November 30, 2011 and May 31, 2011, goodwill and intangible assets consisted of the following:

	November 30, 2011	May 31, 2011
	(in thousands)	
Goodwill	$ 741,081	$ 779,637
Other intangible assets:		
Customer-related intangible assets	$ 437,687	$ 457,226
Trademarks, finite life	8,135	8,659
Contract-based intangible assets	68,293	72,681
	514,115	538,566
Less accumulated amortization on:		
Customer-related intangible assets	196,080	181,372
Trademarks	4,490	4,138
Contract-based intangible assets	13,865	11,556
	214,435	197,066
	$ 299,680	$ 341,500

The following table discloses the changes in the carrying amount of goodwill for the six months ended November 30, 2011 (in thousands):

	North America merchant services	International merchant services	Total
	(in thousands)		
Balance at May 31, 2011	$ 217,422	$ 562,215	$ 779,637
Accumulated impairment losses	—	—	—
	217,422	562,215	779,637
Goodwill acquired	—	—	—
Effect of foreign currency translation	(4,895)	(33,661)	(38,556)
Balance at November 30, 2011	$ 212,527	$ 528,554	$ 741,081

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NOTE 4—LONG-TERM DEBT AND CREDIT FACILITIES

Outstanding debt consisted of the following:

	November 30, 2011	May 31, 2011
Lines of credit:	(in thousands)	
Corporate Credit Facility - long-term	$ 163,922	$ 183,975
Short-term lines of credit:		
United Kingdom Credit Facility	78,413	108,333
Hong Kong Credit Facility	82,863	73,554
Canada Credit Facility	7,189	18,725
Malaysia Credit Facility	17,866	17,743
Spain Credit Facility	16,258	17,646
Singapore Credit Facility	9,564	17,245
Philippines Credit Facility	6,096	9,736
Maldives Credit Facility	2,843	3,202
Macau Credit Facility	2,396	2,372
Sri Lanka Credit Facility	2,188	2,189
Total short-term lines of credit	225,676	270,745
Total lines of credit	389,598	454,720
Notes Payable	13,363	14,285
Term loans	113,899	155,759
Total debt	$ 516,860	$ 624,764
Current portion	$ 313,638	$ 356,547
Long-term debt	203,222	268,217
Total debt	$ 516,860	$ 624,764

Lines of Credit

The Corporate Credit Facility is available for general corporate purposes and to fund future strategic acquisitions. Our short-term line of credit facilities are used to fund settlement and provide a source of working capital. With certain of our credit facilities, the facility nets the amounts pre-funded to merchants against specific cash balances in local Global Payments accounts, which we characterize as cash and cash equivalents. Therefore, the amounts reported in lines of credit, which represents the amounts pre-funded to merchants, may exceed the stated credit limit, when in fact the combined position is less than the credit limit. The total available incremental borrowings under our credit facilities at November 30, 2011 were $925.9 million, of which $436.1 million is available under our Corporate Credit Facility.

Term Loans

We have a five year unsecured $200.0 million term loan agreement with a syndicate of banks in the United States which we used to partially fund our HSBC Merchant Services LLP acquisition. The term loan expires in June 2013 and bears interest, at our election, at the prime rate or LIBOR, plus a leverage based margin. As of November 30, 2011 the interest rate on the term loan was 1.26%. The term loan calls for quarterly principal payments of $5.0 million beginning with the quarter ended November 30, 2008 and increasing to $10.0 million beginning with the quarter ended November 30, 2010 and $15.0 million beginning with the quarter ending November 30, 2011. As of November 30, 2011, the outstanding balance of the term loan was $90.0 million.

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We have a $300.0 million term loan agreement ($230.0 million and £43.5 million) with a syndicate of financial institutions. In December 2010, the entire balance of the United States dollar portion of the term loan was repaid by a borrowing on the Corporate Credit Facility, and the facility terms were amended. The term loan expires in July 2012 and has a variable interest rate based on the LIBOR plus a leverage based margin. As of November 30, 2011, the interest rate on the remaining British Pound Sterling portion of the term loan was 2.25%. The term loan requires quarterly principal payments of £2.2 million beginning with the quarter ended November 30, 2009 and increasing to £3.3 million beginning with the quarter ended November 30, 2010. As of November 30, 2011, the outstanding balance of this term loan was $23.9 million (£15.2 million).

Notes Payable

UCS, our subsidiary in the Russian Federation, has notes payable with a total outstanding balance of approximately $13.4 million at November 30, 2011. These notes have fixed interest rates ranging from 8.0% to 10.0% with maturity dates ranging from December 2011 through November 2016.

Compliance with Covenants

There are certain financial and non-financial covenants contained in our various credit facilities and term loans. Our term loan agreements include financial covenants requiring a leverage ratio no greater than 3.25 to 1.00 and a fixed charge coverage ratio no less than 2.50 to 1.00. We complied with these covenants as of November 30, 2011.

NOTE 5—INCOME TAX

We have a deferred tax asset of $93.1 million at November 30, 2011 primarily associated with the purchase of the remaining 49% interest in HSBC Merchant Services LLP ("UK deferred tax asset").

Our effective tax rates were 27.5% and 29.6% for the three months ended November 30, 2011 and 2010, respectively. Our effective tax rates were 30.2% and 30.6% for the six months ended November 30, 2011 and 2010, respectively. The effective tax rates for November 30, 2011 and 2010 reflect adjustments to our UK deferred tax asset due to legislated enacted corporate tax rate reductions in the United Kingdom of 2% and 1%, respectively.

As of November 30, 2011 and May 31, 2011, other long-term liabilities included liabilities for unrecognized income tax benefits of $41.1 million and $37.2 million, respectively. During the three and six months ended November 30, 2011, we recognized additional liabilities of $1.5 million and $3.9 million, respectively, for unrecognized income tax benefits. During both the six months ended November 30, 2011 and 2010, amounts recorded for accrued interest and penalty expense related to the unrecognized income tax benefits were insignificant. We do not expect the amounts of unrecognized tax benefits to significantly change within the next twelve months.