ADVANCE AUTO PARTS INC
Form 10-Q
November 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended October 4, 2008

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 001-16797

ADVANCE AUTO PARTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	54-2049910
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5008 Airport Road, Roanoke, Virginia 24012
(Address of Principal Executive Offices)
(Zip Code)

(540) 362-4911
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report).

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 x No o

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 definition of “large accelerated filer,” "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer p
Non-accelerated filer p (Do not check if a smaller reporting company)	Smaller reporting company p

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

As of November 10, 2008, the registrant had outstanding 94,691,278 shares of Common Stock, par value $0.0001 per share (the only class of common stock of the registrant outstanding).

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
October 4, 2008 and December 29, 2007
(in thousands, except per share data)
(unaudited)

Assets		October 4, 2008		December 29, 2007
Current assets:				
Cash and cash equivalents	$	21,307	$	14,654
Receivables, net		93,778		84,983
Inventories, net		1,717,656		1,529,469
Other current assets		46,078		53,719
Total current assets		1,878,819		1,682,825
Property and equipment, net of accumulated depreciation of $817,350 and $753,024		1,053,789		1,047,944
Assets held for sale		2,295		3,274
Goodwill		34,603		33,718
Intangible assets, net		27,888		26,844
Other assets, net		10,865		10,961
	$	3,008,259	$	2,805,566
Liabilities and Stockholders' Equity				
Current liabilities:				
Bank overdrafts	$	-	$	30,000
Current portion of long-term debt		680		610
Financed vendor accounts payable		181,929		153,549
Accounts payable		853,839		688,970
Accrued expenses		335,454		301,414
Other current liabilities		50,560		51,385
Total current liabilities		1,422,462		1,225,928
Long-term debt		470,494		505,062
Other long-term liabilities		57,792		50,781
Commitments and contingencies				
Stockholders' equity:				
Preferred stock, nonvoting, $0.0001 par value, 10,000 shares authorized; no shares issued or outstanding		-		-
Common stock, voting, $0.0001 par value, 200,000 shares authorized; 102,826 shares issued and 94,678 outstanding in 2008 and 101,072 shares issued and 99,060 outstanding in 2007		10		10

Additional paid-in capital		330,966		274,659
Treasury stock, at cost, 8,148 and 2,012 shares		(291,114)		(74,644)
Accumulated other comprehensive loss		(3,251)		(701)
Retained earnings		1,020,900		824,471
Total stockholders' equity		1,057,511		1,023,795
	$	3,008,259	$	2,805,566

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Twelve and Forty Weeks Ended
October 4, 2008 and October 6, 2007
(in thousands, except per share data)
(unaudited)

	Twelve Week Periods Ended		Forty Week Periods Ended	
	October 4, 2008	October 6, 2007	October 4, 2008	October 6, 2007
Net sales	$ 1,187,952	$ 1,158,043	$ 3,949,867	$ 3,796,022
Cost of sales, including purchasing and warehousing costs	610,833	602,930	2,028,459	1,968,645
Gross profit	577,119	555,113	1,921,408	1,827,377
Selling, general and administrative expenses	481,222	454,734	1,553,274	1,474,495
Operating income	95,897	100,379	368,134	352,882
Other, net:				
Interest expense	(6,672)	(7,968)	(26,247)	(26,634)
Other (expense) income, net	(223)	353	(287)	1,203
Total other, net	(6,895)	(7,615)	(26,534)	(25,431)
Income before provision for income taxes	89,002	92,764	341,600	327,451
Provision for income taxes	32,847	33,724	127,973	123,886
Net income	$ 56,155	$ 59,040	$ 213,627	$ 203,565
Basic earnings per share	$ 0.59	$ 0.58	$ 2.25	$ 1.94
Diluted earnings per share	$ 0.59	$ 0.57	$ 2.23	$ 1.92
Average common shares outstanding	95,019	102,546	95,003	104,987
Dilutive effect of share-based compensation	840	635	758	866
Average common shares outstanding - assuming dilution	95,859	103,181	95,761	105,853

The accompanying notes to the condensed consolidated financial statements
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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Forty Weeks Ended
October 4, 2008 and October 6, 2007
(in thousands)
(unaudited)

	Forty Week Periods Ended	
	October 4, 2008	October 6, 2007
Cash flows from operating activities:		
Net income	$ 213,627	$ 203,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	113,297	113,404
Amortization of deferred debt issuance costs	277	173
Share-based compensation	13,405	14,318
Loss on disposal of property and equipment, net	1,272	9,074
Benefit for deferred income taxes	(1,465)	(21,141)
Excess tax benefit from share-based compensation	(8,994)	(11,133)
Net (increase) decrease in:		
Receivables, net	(8,518)	14,317
Inventories, net	(187,741)	(77,326)
Other assets	7,501	(985)
Net increase in:		
Accounts payable	164,869	56,508
Accrued expenses	60,656	71,708
Other liabilities	7,658	5,296
Net cash provided by operating activities	375,844	377,778
Cash flows from investing activities:		
Purchases of property and equipment	(136,954)	(146,520)
Insurance proceeds related to damaged property	-	6,636
Proceeds from sales of property and equipment	6,351	1,761
Other	(3,413)	-
Net cash used in investing activities	(134,016)	(138,123)
Cash flows from financing activities:		
Decrease in bank overdrafts	(30,000)	(33,857)
Increase in financed vendor accounts payable	28,380	25,781
Dividends paid	(23,155)	(25,152)
(Payments) borrowings on note payable	(498)	4,395
Borrowings under credit facilities	301,700	258,100
Payments on credit facilities	(335,700)	(305,300)
Proceeds from the issuance of common stock, primarily exercise of stock options	34,533	39,711
	8,994	11,133

Excess tax benefit from share-based compensation				
Repurchase of common stock		(219,429)		(211,225)
Other		-		467
Net cash used in financing activities		(235,175)		(235,947)
Net increase in cash and cash equivalents		6,653		3,708
Cash and cash equivalents, beginning of period		14,654		11,128
Cash and cash equivalents, end of period	$	21,307	$	14,836

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows - (Continued)
For the Forty Weeks Ended
October 4, 2008 and October 6, 2007
(in thousands)
(unaudited)

	Forty Week Periods Ended	
	October 4, 2008	October 6, 2007
Supplemental cash flow information:		
Interest paid	$ 21,100	$ 23,523
Income tax payments, net	106,418	123,156
Non-cash transactions:		
Accrued purchases of property and equipment	22,584	24,107
Retirement of common stock	-	211,225
Changes in other comprehensive loss	2,550	1,164
Adoption of FIN No. 48, net of tax	-	2,275

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Notes to the Condensed Consolidated Financial Statements
For the Twelve and Forty Weeks Ended October 4, 2008 and October 6, 2007
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(unaudited)

1. Basis of Presentation:

The accompanying condensed consolidated financial statements include the accounts of Advance Auto Parts, Inc. and its wholly owned subsidiaries, or the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheets as of October 4, 2008 and December 29, 2007, the condensed consolidated statements of operations for the twelve and forty weeks ended October 4, 2008 and October 6, 2007, and the condensed consolidated statements of cash flows for the forty week periods ended October 4, 2008 and October 6, 2007, have been prepared by the Company. In the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the fiscal year ended December 29, 2007.

The results of operations for the interim periods are not necessarily indicative of the operating results to be expected for the full fiscal year.

Use of Estimates

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

Vendor Incentives

The Company receives incentives in the form of reductions to amounts owed to and/or payments from vendors related to cooperative advertising allowances, volume rebates and other promotional considerations. The Company accounts for vendor incentives in accordance with Emerging Issues Task Force, or EITF, No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." Many of the incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis or less (short-term). Both cooperative advertising allowances and volume rebates are earned based on inventory purchases and initially recorded as a reduction to inventory. These deferred amounts are included as a reduction to cost of sales as the inventory is sold because these payments do not represent reimbursements for specific, incremental and identifiable costs. Total deferred vendor incentives in inventory were $50,775 and $39,118 at October 4, 2008 and December 29, 2007, respectively.

The Company recognizes other promotional incentives earned under long-term agreements as a reduction to cost of sales. These incentives are recognized based on cumulative net purchases as a percentage of total estimated net purchases over the life of the agreement. The Company's margins could be impacted positively or negatively if actual purchases from any one year differ from its estimates; however, the impact over the life of the agreement would be the same. Short-term promotional incentives (terms less than one year) are recognized as a reduction to cost of sales over the course of the agreements.

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Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue in the accompanying condensed consolidated balance sheets. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date has been included in Other current liabilities. Earned amounts that are receivable from vendors are included in Receivables, net except for that portion expected to be received after one year, which is included in Other assets, net.

Preopening Expenses

Preopening expenses, which consist primarily of payroll and occupancy costs related to the opening of new stores, are expensed as incurred.

Warranty Liabilities

The Company's vendors are primarily responsible for warranty claims. However, warranty costs relating to merchandise (primarily batteries) sold under warranty, which are not covered by vendors' warranties, are estimated based on the Company's historical experience and are recorded in the period the product is sold.

Sales Returns and Allowances

The Company’s accounting policy for sales returns and allowances consists of establishing reserves for estimated returns at the time of sale. The Company anticipates sales returns based on current sales levels and the Company’s historical return experience on a specific product basis. The Company’s reserve for sales returns and allowances was not significant at October 4, 2008 and December 29, 2007.

Earnings per Share of Common Stock

Basic earnings per share of common stock has been computed based on the weighted-average number of common shares outstanding during the period, which is reduced by stock held in treasury and shares of nonvested restricted stock. Diluted earnings per share of common stock reflects the weighted-average number of shares of common stock outstanding, outstanding deferred stock units and the impact of outstanding stock options, stock appreciation rights and shares of nonvested restricted stock (collectively “share-based awards”), calculated on the treasury stock method as modified by the adoption of Statement of Financial Accounting Standards, or SFAS, No. 123R, “Share-Based Payment.”

Hedging Activities

The Company utilizes interest rate swaps to limit its cash flow risk on its variable rate debt. In accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” the fair value of the Company’s outstanding hedges is recorded as an asset or liability in the accompanying condensed consolidated balance sheets at October 4, 2008 and December 29, 2007, respectively. The Company uses the 90-day adjusted LIBOR interest rate and has the intent and ability to continue to use this rate on its hedged borrowings. Accordingly, the Company does not recognize any ineffectiveness on the swaps as allowed under Derivative Implementation Group Issue No. G7, “Cash Flow Hedges: Measuring the Ineffectiveness of a Cash Flow Hedge under Paragraph 30(b) When the Shortcut Method Is Not Applied.” The Company has recorded all adjustments to the fair value of the hedge instruments in Accumulated

other comprehensive income (loss) through the maturity date of the applicable hedge arrangements.

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Financed Vendor Accounts Payable

The Company is party to a short-term financing program with a bank allowing it to extend its payment terms on certain merchandise purchases. The substance of the program is for the Company to borrow money from the bank to finance purchases from vendors. The Company records any discount given by the vendor as a reduction to the cost of its inventory and accretes this discount to the resulting short-term payable to the bank through interest expense over the extended term. At October 4, 2008 and December 29, 2007, $181,929 and $153,549, respectively, was payable to the bank by the Company under this program and is included in the accompanying condensed consolidated balance sheets as Financed vendor accounts payable.

Cost of Sales and Selling, General and Administrative Expenses

The following table illustrates the primary costs classified in each major expense category:

Cost of Sales

- Total cost of merchandise sold including:
  - Freight expenses associated with moving merchandise inventories from our vendors to our distribution center,
  - Vendor incentives, and
  - Cash discounts on payments to vendors;
- Inventory shrinkage;
- Defective merchandise and warranty costs;
- Costs associated with operating our distribution network, including payroll and benefit costs, occupancy costs and depreciation; and
- Freight expenses associated with moving merchandise inventories from our distribution center to our retail stores.

SG&A

- Payroll and benefit costs for retail and corporate team members;
- Occupancy costs of retail and corporate facilities;
- Depreciation related to retail and corporate assets;
- Advertising;
- Costs associated with our commercial delivery program, including payroll and benefit costs, and transportation expenses associated with moving merchandise inventories from our retail stores to our customer locations;
- Freight expenses associated with moving merchandise inventories from our Local Area Warehouses, or LAWs, and Parts Delivered Quickly warehouses, or PDQs, to our retail stores after the customer has special-ordered the merchandise;
- Self-insurance costs;

Professional services; and
Other administrative costs, such as credit card
service fees, supplies, travel and lodging.

New Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position, or FSP, EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, “Earnings per Share.” Under the guidance of FSP EITF 03-6-1, nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company is currently evaluating the impact of adopting FSP EITF 03-6-1.

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In June 2008, the FASB Issued EITF No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits." EITF 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee's maintenance accounting policy. Upon adoption, entities must recognize the effect of the change as a change in accounting principle. EITF 08-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of EITF 08-3 to have a material impact on its financial condition, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets," which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS 142, "Goodwill and Other Intangible Assets." The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141, "Business Combinations." The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a material impact on the Company's financial condition, results of operations or cash flow.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of SFAS No. 133." SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are evaluating the impact the adoption of SFAS No. 161 will have on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13." FSP No. FAS 157-1 amends SFAS No. 157, "Fair Value Measurements," to exclude SFAS No. 13, "Accounting for Leases," and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS No. 141 or No. 141(R), Business Combinations (revised 2007), regardless of whether those assets and liabilities are related to leases. The FSP will be effective upon the full adoption of SFAS 157 during the first quarter of fiscal 2009 and will not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160, among other things, provides guidance and establishes amended

accounting and reporting standards for a parent company’s noncontrolling interest in a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 to have a material impact on its financial condition, results of operations or cash flows.

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In December 2007, the FASB issued SFAS No. 141R, “Business Combinations,” which replaces SFAS No. 141, “Business Combinations.” SFAS No. 141R, among other things, establishes principles and requirements for how an acquirer entity recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any controlling interests in the acquired entity; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Costs of the acquisition will be recognized separately from the business combination. SFAS No. 141R applies to business combinations for fiscal years beginning after December 15, 2008.

Effective December 30, 2007, the Company adopted FASB Staff Position No. FIN 39-1, “Amendment of FASB Interpretation No. 39,” or FSP 39-1. FSP 39-1 amends FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, to require a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with FIN 39. FSP No. 39-1 also amends FIN 39 for certain terminology modifications. Upon adoption of FSP No. 39-1, the Company did not change its accounting policy of not offsetting fair value amounts recognized for derivative instruments under master netting arrangements. The adoption of FSP No. 39-1 did not have an impact on the Company’s financial position, results of operations or cash flows.

Effective December 30, 2007, the Company adopted the initial provisions of SFAS No. 157, “Fair Value Measurements” on its financial assets and liabilities subject to the deferral provisions of FSP 157-2. SFAS No. 157 clarifies the definition of fair value, establishes a framework for defining fair value as it relates to other accounting pronouncements that require or permit fair value measurements, and expands the disclosures of fair value measurements. The adoption of SFAS 157 did not have any impact on the Company’s financial condition, results of operations or cash flows. The Company did not apply the provisions of SFAS No. 157 for its nonfinancial assets and liabilities except for those recognized or disclosed on a recurring basis (at least annually) as allowed by the issuance of FSP 157-2. The Company will fully adopt the provisions of SFAS 157 effective during its first quarter of fiscal 2009.

The deferral provided by FSP No. 157-2 applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and nonfinancial long-lived asset groups measured at fair value for an impairment assessment. We are evaluating the impact FSP No. 157-2 will have on our nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis.

Effective December 30, 2007, the Company adopted the provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company elected not to apply fair value on its existing financial assets and liabilities upon adoption. Therefore, this adoption did not have a material effect on the Company’s financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).” SFAS No. 158

requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. The Company adopted the recognition provisions of SFAS No. 158 on December 30, 2006. The Company adopted the measurement date provisions of SFAS

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No. 158 on December 30, 2007. The Company has elected to apply the alternate transition method under which a 14-month measurement will cover the period from November 1, 2007 through January 3, 2009. The change in the measurement date will not have a material impact on the Company's financial condition, results of operations or cash flows.

In February 2008, the FASB issued FASB Staff Position No. FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides." FSP No. FAS 158-1 updates the illustrations in Appendix B of FASB Statement No. 87, Appendix B of FASB Statement No. 88 and Appendix C of FASB Statement No. 106 to reflect the provisions of SFAS No. 158. FSP No. FAS 158-1 also amends the questions and answers contained in FASB Special Reports, which pertains to the implementation of Statements 87, 88 and 106. Finally, this FSP makes conforming changes to other guidance and technical corrections to SFAS No. 158. The conforming amendments made by this FSP are effective as of the effective dates of SFAS No. 158 and will not have a material impact on the Company's financial position, results of operations or cash flows.

2. Goodwill and Intangible Assets:

The carrying amount, additions, current period amortization and net intangible assets as of October 4, 2008 and December 29, 2007 include:

	Acquired intangible assets			
	Subject to Amortization		Not Subject to Amortization	
	Customer Relationships	Other	Trademark and Tradenames	Intangible Assets, net
Gross carrying amount	$ 9,800	$ 885	$ 20,550	$ 31,235
Net book value at December 29, 2007	$ 7,464	$ 580	$ 18,800	$ 26,844
Addition	200	-	1,750	1,950
2008 amortization	(808)	(98)	-	(906)
Net book value at October 4, 2008	$ 6,856	$ 482	$ 20,550	$ 27,888

During the second quarter of fiscal 2008, the Company acquired certain customer relationships for $200 in connection with an acquisition of a small retail chain.

During the first quarter of fiscal 2008, the Company acquired from a Kentucky entity for $1,750 the limited territorial rights the Kentucky entity had in the "Advance Auto Parts" trademark, ownership of certain websites and access to the Louisville, Kentucky market. This improved the Company's trademark rights, opened a new metropolitan market for the Company and is expected to increase traffic to the Company's website.

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(in thousands, except per share data)
(unaudited)

The table below shows the expected amortization expense for the next five years for acquired intangible assets recorded as of October 4, 2008:

Fiscal Year		
Remainder of 2008	$	296
2009		1,173
2010		1,059
2011		967
2012		967

The changes in the carrying amount of goodwill for the forty weeks ended October 4, 2008 are as follows:

	AAP Segment		AI Segment		Total	
Balance at December 29, 2007	$	16,093	$	17,625	$	33,718
Fiscal 2008 activity		-		885		885
Balance at October 4, 2008	$	16,093	$	18,510	$	34,603

During the second quarter of fiscal 2008, the Company recorded goodwill in the amount of $885 in connection with an acquisition of a small retail chain.

3. Receivables, net:

Receivables consist of the following:

	October 4, 2008	December 29, 2007
Trade	$ 19,329	$ 14,782
Vendor	75,907	71,403
Other	2,949	2,785
Total receivables	98,185	88,970
Less: Allowance for doubtful accounts	(4,407)	(3,987)
Receivables, net	93,778	84,983

4. Inventories, net:

Inventories are stated at the lower of cost or market, cost being determined using the last-in, first-out ("LIFO") method for approximately 93% of inventories at both October 4, 2008 and December 29, 2007. Under the LIFO method, the Company's cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs relating to prices paid in prior years. The Company's costs to acquire inventory have been

generally decreasing in recent years as a result of the Company’s significant growth. Accordingly, the cost to replace inventory is less than the LIFO balances carried for similar products. For the forty weeks ended October 4, 2008 and October 6, 2007, the Company recorded reductions to cost of sales of $6,118 and $13,254, respectively.

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An actual valuation of inventory under the LIFO method is performed by the Company at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected fiscal year-end inventory levels and costs.

The remaining inventories are comprised of product cores, which consist of the non-consumable portion of certain parts and batteries and are valued under the first-in, first-out ("FIFO") method. Core values are included as part of the Company's merchandise costs and are either passed on to the customer or returned to the vendor. Additionally, these products are not subject to frequent cost changes like the Company's other merchandise inventory, thus there is no material difference from applying either the LIFO or FIFO valuation methods.

Inventory Overhead Costs

The Company capitalizes certain purchasing and warehousing costs into inventory. Purchasing and warehousing costs included in inventory, at FIFO, at October 4, 2008 and December 29, 2007, were $102,125 and $107,068, respectively. Inventories consist of the following:

	October 4, 2008	December 29, 2007
Inventories at FIFO, net	$ 1,617,766	$ 1,435,697
Adjustments to state inventories at LIFO	99,890	93,772
Inventories at LIFO, net	$ 1,717,656	$ 1,529,469

Replacement cost approximated FIFO cost at October 4, 2008, and December 29, 2007.

Inventory Reserves

Inventory quantities are tracked through a perpetual inventory system. The Company uses a cycle counting program in all distribution centers, PDQs and LAWs to ensure the accuracy of the perpetual inventory quantities of both merchandise and core inventory. In addition, the Company uses a combination of cycle counting and physical inventory counts in all retail stores to ensure the accuracy of the perpetual inventory quantities of both merchandise and core inventory in these locations.

The Company establishes reserves for estimated shrink based on historical accuracy and effectiveness of the cycle counting program. The Company also establishes reserves for potentially excess and obsolete inventories based on current inventory levels and the historical analysis of product sales and current market conditions. The Company provides reserves when less than full credit is expected from a vendor or when liquidating product will result in retail prices below recorded costs. The Company's reserves against inventory for these matters were $36,938 and $35,565 at October 4, 2008 and December 29, 2007, respectively.

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5. Warranty Liabilities:

The following table presents changes in the Company's warranty reserves:

	October 4, 2008 (40 weeks ended)	December 29, 2007 (52 weeks ended)
Warranty reserve, beginning of period	$ 17,757	$ 13,069
Additions to warranty reserves	38,672	24,722
Reserves utilized and other adjustments, net	(29,773)	(20,034)
Warranty reserve, end of period	$ 26,656	$ 17,757

6. Long-term Debt:

Long-term debt consists of the following:

	October 4, 2008	December 29, 2007
Revolving facility at variable interest rates (3.71% and 5.93% at October 4, 2008 and December 29, 2007, respectively) due October 2011	$ 267,000	$ 451,000
Term loan at variable interest rates (3.73% and 6.19% at October 4, 2008 and December 29, 2007, respectively) due October 2011	200,000	50,000
Other	4,174	4,672
	471,174	505,672
Less: Current portion of long-term debt	(680)	(610)
Long-term debt, excluding current portion	$ 470,494	$ 505,062

Term Loan

As of October 4, 2008, the Company had borrowed $200,000 under its unsecured four-year term loan. The Company entered into the term loan on December 4, 2007, with the Company's wholly-owned subsidiary, Advance Stores Company, Incorporated, or Stores, serving as borrower. As of December 29, 2007, the Company had borrowed $50,000 under the term loan. The entire $200,000 proceeds from this term loan were used to repurchase shares of the Company's common stock under its stock repurchase program. The term loan terminates on October 5, 2011.

The interest rate on the term loan is based, at the Company's option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.00% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. The Company has elected to use the 90-day adjusted LIBOR rate and has

the ability and intent to continue to use this rate on its hedged borrowings. Under the terms of the term loan, the interest rate spread is based on the Company’s credit rating.

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Revolving Credit Facility

In addition to the term loan, the Company has a $750,000 unsecured five-year revolving credit facility with Stores serving as the borrower. The revolving credit facility also provides for the issuance of letters of credit with a sub limit of $300,000, and swingline loans in an amount not to exceed $50,000. The Company may request, subject to agreement by one or more lenders, that the total revolving commitment be increased by an amount not exceeding $250,000 (up to a total commitment of $1,000,000) during the term of the credit agreement. Voluntary prepayments and voluntary reductions of the revolving balance are permitted in whole or in part, at the Company's option, in minimum principal amounts as specified in the revolving credit facility. The revolving credit facility terminates on October 5, 2011.

As of October 4, 2008, the Company had $267,000 outstanding under its revolving credit facility, and letters of credit outstanding of $79,754, which reduced the availability under the revolving credit facility to $403,246. (The letters of credit generally have a term of one year or less.) A commitment fee is charged on the unused portion of the revolver, payable in arrears. The current commitment fee rate is 0.150% per annum.

The interest rate on borrowings under the revolving credit facility is based, at the Company's option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 0.75% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. The Company has elected to use the 90-day adjusted LIBOR rate and has the ability and intent to continue to use this rate on its hedged borrowings. Under the terms of the revolving credit facility, the interest rate spread (and commitment fee) is based on the Company's credit rating.

Other

As of October 4, 2008, the Company also had $4,174 outstanding under an economic development note.

Guarantees and Covenants

The term loan and revolving credit facility are fully and unconditionally guaranteed by Advance Auto Parts, Inc. The Company's debt agreements collectively contain covenants restricting its ability to, among other things: (1) create, incur or assume additional debt (including hedging arrangements), (2) incur liens or engage in sale-leaseback transactions, (3) make loans and investments, (4) guarantee obligations, (5) engage in certain mergers, acquisitions and asset sales, (6) change the nature of the Company's business and the business conducted by its subsidiaries and (7) change the Company's status as a holding company. The Company is required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. The Company was in compliance with these covenants at October 4, 2008. The Company's term loan and revolving credit facility also provide for customary events of default, covenant defaults and cross-defaults to its other material indebtedness.

7. Hedging Activities:

The Company seeks to manage and mitigate cash flow risk on its variable rate debt via interest rate swaps. The fair value of the Company's interest rate swaps at October 4, 2008 and December 29, 2007 reflected an unrecognized loss

of $11,376 and $7,645, respectively. Any amounts received or paid under these hedges are recorded in the statement of operations during the accounting period the interest on the hedged debt is paid.

Based on the estimated current and future fair values of the hedge arrangements at October 4, 2008, the Company estimates amounts currently included in Accumulated other comprehensive income (loss) that will be

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reclassified to earnings in the next 12 months will consist of a loss of $4,188 associated with the interest rate swaps.

The Company has executed interest rate swaps with certain counterparties. As a result of the deterioration and uncertainty in the credit markets, the Company may experience losses on these interest rate swaps in the event of a default by the counterparties.

8. Stock Repurchase Program:

On May 15, 2008, the Company's Board of Directors authorized a new $250,000 stock repurchase program. The new program cancelled and replaced the remaining portion of the Company's previous $500,000 stock repurchase program (authorized on August 8, 2007). The program allows the Company to repurchase its common stock on the open market or in privately negotiated transactions from time to time in accordance with the requirements of the Securities and Exchange Commission.

During the twelve weeks ended October 4, 2008, the Company repurchased 1,372 shares of common stock at an aggregate cost of $53,623, or an average price of $39.09 per share. These shares were repurchased in accordance with the Company's $250,000 stock repurchase program authorized by its Board of Directors in the second quarter of fiscal 2008. During the forty weeks ended October 4, 2008, the Company repurchased 6,136 shares of common stock at an aggregate cost of $216,471, or an average price of $35.28 per share, of which 4,564 shares of common stock were repurchased under the previous $500,000 stock repurchase program. Additionally, the Company settled $2,959 on shares repurchased prior to the end of fiscal 2007.

As of October 4, 2008, the Company had repurchased 1,573 shares of common stock at an aggregate cost of $61,089 under its $250,000 stock repurchase program resulting in $188,911 remaining under this program, excluding related expenses.

9. Postretirement Plan:

The Company provides certain health and life insurance benefits for eligible retired team members through a postretirement plan, or Plan. These benefits are subject to deductibles, co-payment provisions and other limitations. The Plan has no assets and is funded on a cash basis as benefits are paid. The Company's postretirement liability is calculated annually by a third-party actuary. The discount rate utilized at December 29, 2007 was 6.0%, and remained unchanged through the forty weeks ended October 4, 2008. The Company expects fiscal 2008 plan contributions to completely offset benefits paid, consistent with fiscal 2007.

The components of net periodic postretirement benefit cost for the twelve and forty weeks ended October 4, 2008, and October 6, 2007 respectively, are as follows:

	Twelve Weeks Ended		Forty Weeks Ended	
	October 4, 2008	October 6, 2007	October 4, 2008	October 6, 2007

Interest cost	$	115	$	127	$	383	$	423
Amortization of negative prior service cost		(134)		(134)		(447)		(447)
Amortization of unrecognized net gain		(3)		-		(10)		-
Net periodic postretirement benefit cost	$	(22)	$	(7)	$	(74)	$	(24)

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10. Share-Based Compensation Plans:

During the forty weeks ended October 4, 2008, the Company made a series of share-based award grants to employees under the Company's long-term incentive plan, as well as to executives hired earlier in 2008. The share based-award grants were comprised of stock appreciation rights, or SARs, and shares of restricted stock (nonvested shares). The Company granted 1,486 SARs, to be settled in the Company's common stock at a weighted average conversion price of $34.90 per share. Based on the Black-Scholes option pricing model, the weighted average grant date fair value for the SARs awarded was $9.23 per share. Additionally, the Company granted 295 shares of restricted stock, which had a weighted average grant date fair value of $35.30 per share. This value was determined based on the ending market price of the Company's common stock on the date of the grant.

The SARs granted during the forty weeks ended October 4, 2008 vest over a three-year period in equal installments beginning on the first anniversary of the grant date, with the exception of certain SARs awards granted to certain executives. Those grants provide for 25% of the SARs award granted to vest immediately with exercise restrictions during the first year, and the remainder of the award to vest in equal installments over the three-year period consistent with all other SARs granted.

Beginning in 2008, all new restricted stock awards granted vest over a three-year period in equal annual installments beginning on the first anniversary of the grant date with the exception of certain shares of restricted stock granted to certain executives. Those shares vest at the end of a three-year period following the grant date. Shares of restricted stock granted during the prior year also vest at the end of the three-year period following the grant date. During this period, holders of restricted stock are entitled to dividend and voting rights. Shares of restricted stock are restricted until they vest and cannot be sold until the restriction has lapsed.

As of October 4, 2008, there was $22,563 of unrecognized compensation expense related to all share-based awards that is expected to be recognized over a weighted average of 1.9 years. Unrecognized compensation expense includes adjustments made for award forfeitures from departing executives and other employees. The Company recognized $13,405 and $14,318 of share-based compensation expense for the forty weeks ended October 4, 2008 and October 6, 2007, respectively.

11. Fair Value Measurements:

As previously discussed, the Company adopted SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements. SFAS No. 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date (with no compulsion to buy or sell).

Our financial assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of these assets or liabilities. These levels are:

•

Level 1 – Unadjusted quoted prices that are available in active markets for identical assets or liabilities at the measurement date.

- Level 2 – Inputs other than quoted prices that are observable for assets and liabilities at the measurement date, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in

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markets that are less active, inputs other than quoted prices that are observable for the asset or liability or corroborated by other observable market data.

- Level 3 – Unobservable inputs for assets or liabilities that are not able to be corroborated by observable market data and reflect the use of a reporting entity's own assumptions. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The following financial liabilities were measured at fair value on a recurring basis during the forty weeks ended October 4, 2008:

		Fair Value Measurements at Reporting Date Using		
	October 4, 2008	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Interest rate swaps	$ 11,376	$ -	$ 11,376	$ -

The fair value of the Company's interest rate swaps is mainly based on observable interest rate yield curves for similar instruments.

As of October 4, 2008 and December 29, 2007, the Company also reported additional financial assets and liabilities at their respective carrying amounts which included cash and cash equivalents, receivables, bank overdrafts, accounts payable, financed vendor accounts payable and current portion of long-term debt. The carrying amount approximates fair value because of the short maturity of those instruments. As of October 4, 2008 and December 29, 2007, the fair value of the Company's long-term debt with a carrying value of $470,494 and $505,062, respectively, was approximately $389,500 and $502,000, respectively, and was based on similar long-term debt issues available to the Company as of that date.

12. Comprehensive Income:

The Company includes in comprehensive income the changes in fair value of the Company's interest rate swaps and changes in net unrecognized other postretirement benefit costs.

Comprehensive income for the twelve and forty weeks ended October 4, 2008 and October 6, 2007 is as follows:

	Twelve Weeks Ended		Forty Weeks Ended	
	October 4, 2008	October 6, 2007	October 4, 2008	October 6, 2007
Net income	$ 56,155	$ 59,040	$ 213,627	$ 203,565
Unrealized loss on hedge arrangements, net of tax	(1,730)	(3,044)	(2,271)	(889)

Changes in net unrecognized other postretirement benefit cost, net of tax		(84)		(83)		(279)		(275)
Comprehensive income	$	54,341	$	55,913	$	211,077	$	202,401

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13. Segment and Related Information:

The Company has the following two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of store operations within the United States, Puerto Rico and the Virgin Islands which operate under the trade names "Advance Auto Parts," "Advance Discount Auto Parts" and "Western Auto." These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks.

The AI segment consists solely of the operations of Autopart International, which operates as an independent, wholly-owned subsidiary. AI's business serves the commercial market in addition to warehouse distributors and jobbers located throughout the Northeastern region of the United States.

The Company evaluates each of its segment's financial performance based on net sales and operating profit for purposes of making decisions and allocating resources. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 1.

The following table summarizes financial information for each of the Company's business segments for the twelve and forty weeks ended October 4, 2008 and October 6, 2007, respectively.

	Twelve Week Periods Ended		Forty Week Periods Ended	
	October 4, 2008	October 6, 2007	October 4, 2008	October 6, 2007
Net sales				
AAP	$ 1,146,516	$ 1,124,110	$ 3,822,585	$ 3,692,208
AI	41,436	33,933	127,282	103,814
Total net sales	$ 1,187,952	$ 1,158,043	$ 3,949,867	$ 3,796,022
Income (loss) before provision (benefit) for income taxes				
AAP	$ 87,143	$ 92,186	$ 337,667	$ 327,475
AI	1,859	578	3,933	(24)
Total income (loss) before provision (benefit) for income taxes	$ 89,002	$ 92,764	$ 341,600	$ 327,451
Provision (benefit) for income taxes				
AAP	$ 32,065	$ 33,483	$ 126,343	$ 123,897
AI	782	241	1,630	(11)
Total provision (benefit) for income taxes	$ 32,847	$ 33,724	$ 127,973	$ 123,886

Segment assets				
AAP	$ 2,850,789	$ 2,623,256	$ 2,850,789	$ 2,623,256
AI	157,470	143,310	157,470	143,310
Total segment assets	$ 3,008,259	$ 2,766,566	$ 3,008,259	$ 2,766,566

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our consolidated historical results of operations and financial condition should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this report. Our first quarter consists of 16 weeks divided into four equal periods. Our remaining three quarters consist of 12 weeks with each quarter divided into three equal periods. Fiscal 2008 is an exception to this rule with the fourth quarter containing 13 weeks due to our 53-week fiscal year.

Certain statements in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are usually identified by the use of words such as "will," "anticipates," "believes," "estimates," "expects," "projects," "forecasts," "plans," "intends," "should" or similar expressions. We intend those forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are included in this statement for purposes of complying with these safe harbor provisions.

These forward-looking statements reflect current views about our plans, strategies and prospects, which are based on the information currently available and on current assumptions.

Although we believe that our plans, intentions and expectations as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions or expectations will be achieved. Listed below and discussed in our Annual Report on Form 10-K for the year ended December 29, 2007 are some important risks, uncertainties and contingencies which could cause our actual results, performances or achievements to be materially different from the forward-looking statements made in this report. These risks, uncertainties and contingencies include, but are not limited to, the following:

- the implementation of our business strategies and goals;
- our ability to expand our business;
- competitive pricing and other competitive pressures;
- a decrease in demand for our products;
- reduced consumer spending on discretionary items due to current deteriorating economic conditions;
- the occurrence of natural disasters and/or extended periods of unfavorable weather;
- our ability to obtain affordable insurance against the financial impacts of natural disasters;
- the availability of suitable real estate locations;
- our overall credit rating which impacts our debt interest rate and ability to obtain additional debt;
- increase in fuel costs as it impacts our cost to operate and the consumer’s ability to shop in our stores;
- deterioration in general economic conditions;
- deteriorating and uncertain credit markets could negatively impact our merchandise vendors, as well as our ability to secure additional capital in the future;
- our relationship with our vendors;
- our ability to attract and retain qualified team members;
- our involvement as a defendant in litigation or incurrence of judgments, fines or legal costs;
- adherence to the restrictions and covenants imposed under our revolving and term loan facilities; and
- acts of terrorism.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our other reports and documents filed with the Securities and Exchange Commission, and you should not place undue reliance on those statements.

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Management Overview

We primarily operate within the United States automotive aftermarket industry, which includes replacement parts (excluding tires), accessories, maintenance items, batteries and automotive chemicals for cars and light trucks (pickup trucks, vans, minivans and sport utility vehicles). We currently are the second largest specialty retailer of automotive parts, accessories and maintenance items to "do-it-yourself," or DIY, and commercial customers in the United States, based on store count and sales.

We operate in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of our store operations within the United States, Puerto Rico and the Virgin Islands which operate under the trade names “Advance Auto Parts,” “Advance Discount Auto Parts” and “Western Auto.” The AI segment consists solely of the operations of Autopart International, Inc., which operates as an independent, wholly-owned subsidiary. As of October 4, 2008, we operated a total of 3,352 stores. For additional information regarding our segments, see Note 13, Segments and Related Information, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Third Quarter Highlights

Our third quarter financial results were adversely impacted by a challenging economic environment, volatility in the financial and credit markets, disruptions from hurricanes and the resulting gas shortages in the Southeast. Highlights from our third quarter include:

- We recorded earnings per diluted share of $0.59 compared to $0.57 for the same quarter of fiscal 2007. This 3.5% increase was driven by a reduced share count as a result of 8.1 million shares repurchased over the past four quarters.

- Our sales increased 2.6% during the third quarter which was primarily due to contributions from the 124 net new AAP and AI stores opened within the last four quarters partially offset by a comparable store sales decrease of 0.1%.

- We generated operating cash flow of $375.8 million for the forty weeks ended October 4, 2008, a decrease of $1.9 million over the comparable period the last four quarters.

- We repurchased 1.4 million shares of common stock for $53.6 million under our $250 million stock repurchase program. During the forty weeks ended October 4, 2008, we repurchased 6.1 million shares for $216.5 million at an average price of $35.28 per share, of which 4.6 million shares were repurchased under our previous $500 million stock repurchase program.

Update on Turnaround Strategies

Although our third quarter financial results were below our expectations, we believe we are making progress on our key turnaround strategies. As announced earlier in 2008, our key turnaround strategies are:

Ø Commercial Acceleration
Ø DIY Transformation
Ø Availability Excellence
Ø Superior Experience

Each of the four strategies is at a different stage of progress. We believe these strategies will enable us to grow top-line sales per square foot, a key driver to help us to ultimately meet our previously announced goal of $10 billion

in sales in the next five years.

Our progress in the Commercial Acceleration strategy is evident as we have experienced double digit comparable sales increases over the last three quarters. For the third quarter, we experienced a 10.8% comparable store sales increase in our commercial sales. We have already added more parts to our stores with commercial

programs, including key brands which are highly respected and preferred by our commercial customers. Another key component of the Commercial Acceleration strategy is developing a sales force to drive our commercial business. We are also testing other initiatives which will be rolled out on a larger scale that meet the needs of our commercial customers while driving shareholder value.

The initial focus of the DIY Transformation strategy is to turnaround our current DIY sales trends utilizing targeted initiatives. Our third quarter DIY comparable sales decrease of 4.1% was more representative of the DIY sales trend prior to our second quarter, which was favorably impacted by the tax stimulus checks. During the third quarter, we completed a 100-day assessment of our DIY business where a representative group of management and field team members worked closely together and concluded that we must continue to focus on initiatives such as attachment selling, parts availability and proper scheduling of our store team members. Additionally, we have identified certain areas where we are experiencing positive DIY sales results which provide us an opportunity to utilize those best practices across the entire DIY business.

Our ability to achieve successful results in our Commercial Acceleration and DIY Transformation strategies is dependent upon our Availability Excellence and Superior Experience strategies.

The Availability Excellence strategy represents our commitment to enhance the parts availability in our stores to better serve both our commercial and DIY customers. This strategy incorporates our supply chain and logistics network capabilities, space management and merchandising initiatives. We are making progress on the parts availability initiative as the merchandising and inventory management teams partner with the commercial and DIY teams to accelerate sales growth. We have also made progress in other initiatives, including the restructuring of our merchandising department into an integrated operating model, the completion of an initial phase of a new category management process and the roll-out of a new price optimization tool. As previously announced, we are also implementing an Oracle merchandising system over a multi-year timeframe which will serve as a key upgrade to our current merchandising systems. We will continue to measure progress in our Availability Excellence strategy, using productivity metrics such as sales per square foot and gross margin return on inventory.

Superior Experience is centered around our store operations and customer service. The leaders of this area will be re-engineering the store experience and store operations as well as better understanding what the customer ultimately wants. We have begun to evaluate our customer service through the measurement of team member engagement and customer satisfaction. We believe we will gain valuable information from these results which will drive improvement in our results in future quarters.

Our financial results have been up and down over the forty week period ended October 4, 2008 as sales decelerated sharply during the first part our third quarter. Our outlook is cautious for the remainder of 2008 given the current economic environment. We are still in the early stages of implementing our four key turnaround strategies. We are committed to making the necessary investments for the long-term success of the Company.

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Consolidated Operating Results and Key Statistics and Metrics

The following table highlights certain consolidated operating results and key statistics and metrics for the twelve and forty weeks ended October 4, 2008 and October 6, 2007, respectively, and fiscal years ended December 29, 2007 and December 30, 2006. We will use these key statistics and metrics to measure the financial progress of our turnaround strategies.

	Twelve Weeks Ended		Forty Weeks Ended		Fiscal Years Ended	
	October 4, 2008	October 6, 2007	October 4, 2008	October 6, 2007	December 29, 2007	December 30, 2006
Operating Results:						
Total net sales (in 000s)	$ 1,187,952	$ 1,158,043	$ 3,949,867	$ 3,796,022	$ 4,844,404	$ 4,616,503
Total commercial net sales (in 000s)	$ 359,420	$ 314,052	$ 1,155,588	$ 1,002,498	$ 1,290,602	$ 1,155,953
Comparable store net sales growth (1)	(0.1%)	1.0%	1.1%	1.0%	0.7%	1.6%
DIY comparable store net sales growth (1)	(4.1%)	(1.2%)	(2.6%)	(0.6%)	(1.1%)	(0.8%)
Commercial comparable store net sales growth (1)	10.8%	7.5%	11.6%	5.6%	6.2%	10.7%
Gross profit	48.6%	47.9%	48.6%	48.1%	47.9%	47.7%
Selling, general & administrative expenses (SG&A)	40.5%	39.3%	39.3%	38.8%	39.3%	39.0%
Operating margin	8.1%	8.7%	9.3%	9.3%	8.6%	8.7%
Diluted earnings per share	$ 0.59	$ 0.57	$ 2.23	$ 1.92	$ 2.28	$ 2.16
Key Statistics and Metrics:						
Number of stores, end of period	3,352	3,228	3,352	3,228	3,261	3,082
Total store square footage, end of period (in 000s)	24,627	23,771	24,627	23,771	23,982	22,753
Total team members, end of period	47,886	45,476	47,886	45,476	44,141	44,421
Average net sales per store (in 000s)(2)	$ 1,519	$ 1,538	$ 1,519	$ 1,538	$ 1,527	$ 1,551
Average net sales per square foot (2)	$ 207	$ 209	$ 207	$ 209	$ 207	$ 210
	$ 9.25	$ 9.22	$ 9.25	$ 9.22	$ 9.40	$ 9.29

Operating income per team member (in 000s)(2)(3)						
SG&A expenses per store (in 000s) (2)	$ 603	$ 604	$ 603	$ 604	$ 601	$ 604
Gross margin return on inventory (2)(4)	$ 3.55	$ 3.47	$ 3.55	$ 3.47	$ 3.39	$ 3.38

Note: These metrics should be reviewed along with the footnotes to the table setting forth our selected store data in Item 6. "Selected Consolidated Financial Data" in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, which was filed with the SEC on February 27, 2008, except for additional footnotes below. The footnotes contain descriptions regarding the calculation of these metrics.

(1) Beginning in fiscal 2008, the Company includes in its comparable store sales the net sales from stores operated in Puerto Rico and Virgin Islands, or Offshore, and AI stores. The comparable periods have been adjusted accordingly.
(2) These financial metrics presented for each quarter and year-to-date period are calculated on an annual basis and accordingly reflect the last four fiscal quarters completed.
(3) Operating income per team member is calculated as operating income divided by an average of beginning and ending number of team members.
(4) Gross margin return on inventory is calculated as gross profit divided by an average of beginning and ending inventory, net of accounts payable and financed vendor accounts payable.

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Store Development by Segment

AAP Segment

At October 4, 2008, we operated 3,227 AAP stores within the United States, Puerto Rico and the Virgin Islands. We operated 3,197 stores throughout 40 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores operated under the “Advance Auto Parts” trade name except for certain stores in the state of Florida, which operated under the “Advance Discount Auto Parts” trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks. In addition, we operated 30 stores under the “Western Auto” and “Advance Auto Parts” trade names, located Offshore.

The following table sets forth information about our AAP stores during the twelve and forty weeks ended October 4, 2008, including the number of new, closed and relocated stores and stores with commercial programs that deliver products to our commercial customers’ place of business. We lease approximately 81% of our AAP stores.

	Twelve Weeks Ended October 4, 2008	Forty Weeks Ended October 4, 2008
Number of stores at beginning of period	3,203	3,153
New stores	27	83
Closed stores	(3)	(9)
Number of stores, end of period	3,227	3,227
Relocated stores	1	8
Stores with commercial programs	2,710	2,710

AI Segment

At October 4, 2008, we operated 125 AI stores in the Northeastern region of the United States under the “Autopart International” trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks, with a greater focus on imported parts. AI primarily serves the commercial market from its retail locations and additionally through a wholesale distribution network.

The following table sets forth information about our AI stores, including the number of new and closed stores, during the twelve and forty weeks ended October 4, 2008. We lease 100% of our AI stores.

	Twelve Weeks Ended October 4, 2008	Forty Weeks Ended October 4, 2008
Number of stores at beginning of period	122	108
New stores	3	17
Closed stores	-	-
Number of stores, end of period	125	125
Stores with commercial programs	125	125

As previously disclosed in our Form 10-K for the year ended December 29, 2007, we anticipate that we will add a total of approximately 115 new AAP and AI stores during 2008 primarily through new store openings.

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Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results and other assumptions we believe are reasonable. Actual results could differ from these estimates. During the twelve and forty weeks ended October 4, 2008, we consistently applied the critical accounting policies discussed in our Annual Report on Form 10-K for the year ended December 29, 2007. For a complete discussion regarding these critical accounting policies, refer to the 2007 Annual Report on Form 10-K.

Components of Statement of Operations

Net Sales

Net sales consist primarily of merchandise sales from our retail store locations to our DIY and commercial customers. Our total sales growth is comprised of both comparable store sales and new store sales. We calculate comparable store sales growth based on the change in store sales starting once a store has been open for 13 complete accounting periods (approximately one year). We include sales from relocated stores in comparable store sales from the original date of opening. Beginning in 2008, we also include in comparable store sales the net sales from the Offshore and AI stores. The comparable periods have been adjusted accordingly.

Cost of Sales

Our cost of sales consists of merchandise costs, net of incentives under vendor programs, inventory shrinkage, defective merchandise and warranty costs, and warehouse and distribution expenses. Gross profit as a percentage of net sales may be affected by variations in our product mix, price changes in response to competitive factors and fluctuations in merchandise costs, vendor programs, inventory shrinkage, defective merchandise and warranty costs and warehouse and distribution costs. We seek to avoid fluctuations in merchandise costs and the instability of supply by entering into long-term purchase agreements with vendors, without minimum purchase volume requirements, when we believe it is advantageous. Our gross profit may not be comparable to those of our competitors due to differences in industry practice regarding the classification of certain costs. See Note 1 in our condensed consolidated financial statements for additional discussion of these costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of store payroll, store occupancy (including rent and depreciation), advertising expenses, commercial delivery expenses, other store expenses and general and administrative expenses, including salaries and related benefits of store support center team members, share-based compensation expense, store support center administrative office expenses, data processing, professional services, self-insurance costs and other related expenses. See Note 1 in our condensed consolidated financial statements for additional discussion of these costs.

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Results of Operations

The following table sets forth certain of our operating data expressed as a percentage of net sales for the periods indicated.

	Twelve Week Periods Ended (unaudited)		Forty Week Periods Ended (unaudited)	
	October 4, 2008	October 6, 2007	October 4, 2008	October 6, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales, including purchasing and warehousing costs	51.4	52.1	51.4	51.9
Gross profit	48.6	47.9	48.6	48.1
Selling, general and administrative expenses	40.5	39.3	39.3	38.8
Operating income	8.1	8.7	9.3	9.3
Interest expense	(0.6)	(0.7)	(0.7)	(0.6)
Other (loss) income, net	(0.0)	0.0	(0.0)	0.0
Provision for income taxes	2.8	2.9	3.2	3.3
Net income	4.7%	5.1%	5.4%	5.4%

Twelve Weeks Ended October 4, 2008 Compared to Twelve Weeks Ended October 6, 2007

Net sales for the twelve weeks ended October 4, 2008 were $1,188.0 million, an increase of $29.9 million, or 2.6%, as compared to net sales for the twelve weeks ended October 6, 2007. The net sales increase was due to contributions from the 124 net new AAP and AI stores opened within the last four quarters partially offset by a comparable store sales decrease of 0.1%. AAP produced sales of $1,146.6 million, an increase of $22.4 million, or 2.0%. AAP’s sales increase was primarily driven by sales from the 103 net new stores opened within the last four quarters partially offset by a 0.3% comparable store sales decrease. The AAP comparable store sales decrease was driven by a decrease in DIY customer count partially offset by (i) an increase in average ticket sales by our DIY customers and (ii) an increase in average ticket sales and customer traffic in our commercial business. AI produced sales of $41.4 million, an increase of $7.5 million, or 22.1%. AI’s sales increase was primarily driven by an 8.6% comparable store sales increase and sales from 21 net new stores opened within the last four quarters.

Gross profit for the twelve weeks ended October 4, 2008 was $577.1 million, or 48.6% of net sales, as compared to $555.1 million, or 47.9% of net sales, for the twelve weeks ended October 6, 2007, or an increase of 65 basis points. The increase in gross profit as a percentage of net sales was primarily due to more effective pricing, improved shrinkage rates and higher sales from AI, which generated a higher gross profit rate.

Selling, general and administrative expenses increased to $481.2 million, or 40.5% of net sales, for the twelve weeks ended October 4, 2008, from $454.7 million, or 39.3% of net sales, for the twelve weeks ended October 6, 2007, or an increase of 124 basis points. The increase in selling, general and administrative expenses as a percentage of sales was primarily driven by higher investments in strategic initiatives, flat comparable store sales and the inability to quickly adjust variable expenses to decelerating sales trends from the second quarter. Partially offsetting these increases were lower medical expenses, reduced advertising and the absence of expenses incurred during the prior year third quarter related to asset impairments and severance.

Operating income for the twelve weeks ended October 4, 2008 was $95.9 million, or 8.1% of net sales, as compared to $100.4 million, or 8.7% of net sales, for the twelve weeks ended October 6, 2007, representing a decrease of 4.5%. This decrease in operating income, as a percentage of net sales, reflected higher selling, general and administrative expenses as previously discussed partially offset by an increase in gross profit. AAP produced operating income of $94.0 million, or 8.2% of net sales, for the twelve weeks ended October 4, 2008 as compared to $99.8 million, or 8.9% of net sales, for the twelve weeks ended October 6, 2007. AI generated operating income of

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$1.9 million for the twelve weeks ended October 4, 2008 as compared to $0.6 million for the comparable period last year. AI's operating income increased primarily due to the positive sales results during the quarter and a decrease in payroll expense as a percentage of sales.

Interest expense for the twelve weeks ended October 4, 2008 was $6.7 million, or 0.6% of net sales, as compared to $8.0 million, or 0.7% of net sales, for the twelve weeks ended October 6, 2007. The decrease in interest expense as a percentage of sales is a result of lower average borrowing rates partially offset by our higher average outstanding borrowings during the twelve weeks ended October 4, 2008 compared to the same period ended October 6, 2007.

Income tax expense for the twelve weeks ended October 4, 2008 was $32.8 million, as compared to $33.7 million for the twelve weeks ended October 6, 2007. Our effective income tax rate was 36.9% for the twelve weeks ended October 4, 2008 compared to 36.4% for the same period ended October 6, 2007.

We generated net income of $56.2 million, or $0.59 per diluted share, for the twelve weeks ended October 4, 2008, as compared to $59.0 million, or $0.57 per diluted share, for the twelve weeks ended October 6, 2007. As a percentage of net sales, net income for the twelve weeks ended October 4, 2008 was 4.7%, as compared to 5.1% for the twelve weeks ended October 6, 2007. The increase in diluted earnings per share was due to a reduced share count as a result of the shares repurchased during the last year.

Forty Weeks Ended October 4, 2008 Compared to Forty Weeks Ended October 6, 2007

Net sales for the forty weeks ended October 4, 2008 were $3,949.9 million, an increase of $153.8 million, or 4.1%, as compared to net sales for the forty weeks ended October 6, 2007. The net sales increase was due to an increase in comparable store sales of 1.1% and contributions from the 124 net new AAP and AI stores opened within the last four quarters. AAP produced sales of $3,822.6 million, an increase of $130.4 million, or 3.5%. AAP's sales increase was primarily driven by a 0.9% comparable store sales increase and sales from the 103 net new stores opened within the last four quarters. The AAP comparable store sales increase was driven by (i) an increase in average ticket sales and customer traffic in our commercial business and (ii) an increase in average ticket sales by our DIY customers offset by a decrease in DIY customer count. AI produced sales of $127.3 million, an increase of $23.5 million, or 22.6%. AI's sales increase was primarily driven by a 10.1% comparable store sales increase and sales from 21 net new stores opened within the last four quarters.

Gross profit for the forty weeks ended October 4, 2008 was $1,921.4 million, or 48.6% of net sales, as compared to $1,827.4 million, or 48.1% of net sales, for the forty weeks ended October 6, 2007, or an increase of 51 basis points. The increase in gross profit as a percentage of net sales was driven by lower supply chain and logistics costs gained primarily through efficiencies of handling more inventory in our distribution centers and more effective pricing.

Selling, general and administrative expenses increased to $1,553.3 million, or 39.3% of net sales, for the forty weeks ended October 6, 2008, from $1,474.5 million, or 38.8% of net sales, for the forty weeks ended October 6, 2007, or an increase of 48 basis points. The increase in selling, general and administrative expenses as a percentage of sales was driven by higher investments in strategic initiatives, increased incentive compensation and higher gasoline costs. Partially offsetting these items were costs savings realized from cost reduction initiatives we completed in fiscal 2007.

Operating income for the forty weeks ended October 4, 2008 was $368.1 million, or 9.3% of net sales, as compared to $352.9 million, or 9.3% of net sales, for the forty weeks ended October 6, 2007, remaining flat. AAP produced operating income of $364.2 million, or 9.5% of net sales, for the forty weeks ended October 4, 2008 as compared to $352.9 million, or 9.6% of net sales, for the forty weeks ended October 6, 2007. AI generated operating income of $3.9 million for the forty weeks ended October 4, 2008 as compared to no operating income for the comparable period

last year. Operating income increased primarily due to AI's positive sales results and a decrease in payroll expense as a percentage of sales.

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Interest expense for the forty weeks ended October 4, 2008 was $26.2 million, or 0.7% of net sales, as compared to $26.6 million, or 0.6% of net sales, for the forty weeks ended October 6, 2007. The increase in interest expense as a percentage of net sales is a result of higher average outstanding borrowings partially offset by our lower average borrowing rates during the forty weeks ended October 4, 2008 compared to the same period ended October 6, 2007.

Income tax expense for the forty weeks ended October 4, 2008 was $128.0 million, as compared to $123.9 million for the forty weeks ended October 6, 2007. Our effective income tax rate was 37.5% for the forty weeks ended October 4, 2008 compared to 37.8% for the same period ended October 6, 2007.

We generated net income of $213.6 million, or $2.23 per diluted share, for the forty weeks ended October 4, 2008, as compared to $203.6 million, or $1.92 per diluted share, for the forty weeks ended October 6, 2007. As a percentage of net sales, net income was 5.4% for both the forty weeks ended October 4, 2008 and October 6, 2007. The increase in diluted earnings per share was primarily due to a reduced share count as a result of the shares repurchased during the last year as well as an increase in operating income.

Liquidity and Capital Resources

Our primary cash requirements include the purchase of inventory, contractual obligations, and capital expenditures as well as the payment of quarterly cash dividends. In addition, we have used available funds to repurchase shares of common stock under our stock repurchase program and to repay borrowings under our credit facility. We have funded these requirements primarily through cash generated from operations supplemented by borrowings under our credit facilities as needed. We believe funds generated from our expected results of operations, available cash and cash equivalents and available borrowings under our revolving credit facility will be sufficient to fund our primary obligations for the next year.

At October 4, 2008, our cash and cash equivalents balance was $21.3 million, an increase of $6.7 million compared to December 29, 2007. This increase resulted from additional cash flow from lower capital expenditures, partially offset by the return of capital to our shareholders through the repurchase of common stock during the forty weeks ended October 4, 2008. Additional discussion of our cash flow results is set forth in the Analysis of Cash Flows section.

At October 4, 2008, our outstanding indebtedness was $34.5 million lower when compared to December 29, 2007 and consisted of borrowings of $267.0 million under our revolving credit facility, $200.0 million under our term loan, and $4.2 million outstanding on an economic development note. Additionally, we had $79.8 million in letters of credit outstanding, which reduced our total availability under the revolving credit facility to $403.2 million.

During the forty weeks ended October 4, 2008, we paid $23.2 million in quarterly cash dividends. Subsequent to October 4, 2008, our Board of Directors declared a quarterly dividend of $0.06 per share to be paid on January 9, 2009 to all common stockholders of record as of December 26, 2008.

Capital Expenditures

Our primary capital requirements have been the funding of our continued store expansion program, including new store openings and store acquisitions, store relocations, store remodels prior to 2008, maintenance of existing stores, the construction and upgrading of distribution centers, the development of proprietary information systems and purchased information systems. During the forty weeks ended October 4, 2008, we opened 83 AAP and 17 AI stores and relocated eight AAP stores. Our capital expenditures were $137.0 million for the forty weeks ended October 4, 2008.

Our future capital requirements will depend in large part on the number of and timing for new stores we open or acquire within a given year and the number of stores we relocate and remodel. As previously disclosed in our Form 10-K for the year ended December 29, 2007, we anticipate adding 100 new AAP and 15 AI stores, relocating 10 to 20 AAP stores and spending $170 million to $190 million on capital expenditures in fiscal 2008. We

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do not plan to remodel any stores under the 2010 remodel program in fiscal 2008. We also plan to make continued investments in the maintenance of our existing stores and logistics network as well as investing in new information systems to support our turnaround strategies, including our parts availability initiative.

Vendor Financing Program

Historically, we have negotiated extended payment terms from suppliers that help finance inventory growth, and we believe that we will be able to continue financing much of our inventory growth through such extended payment terms. We have a short-term financing program with a bank for certain merchandise purchases. In substance, the program allows us to borrow money from the bank to finance purchases from our vendors. This program allows us to reduce our working capital invested in current inventory levels and finance future inventory growth. Our revolving credit facility and term loan do not restrict availability under this program. At October 4, 2008, $181.9 million was payable to the bank by us under this program.

Subsequent to October 4, 2008, we entered into a customer-managed services agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to finance payment obligations from us with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. Our goal in entering into this arrangement is to capture overall supply chain savings, in the form of pricing, payment terms or vendor funding, created by facilitating suppliers' ability to finance payment obligations at more favorable discount rates, while providing them with greater working capital flexibility.

The recent deterioration in the credit markets may adversely impact our ability to secure funding for any these programs which would reduce our anticipated savings from these programs.

Stock Repurchase Program

On May 15, 2008, our Board of Directors authorized a new $250 million stock repurchase program. The new program cancelled and replaced the remaining portion of our previous $500 million stock repurchase program. The program allows us to repurchase our common stock on the open market or in privately negotiated transactions from time to time in accordance with the requirements of the Securities and Exchange Commission.

During the twelve weeks ended October 4, 2008, we repurchased 1.4 million shares of common stock at an aggregate cost of $53.6 million, or an average price of $39.09 per share, in accordance with our $250 million stock repurchase program. During the forty weeks ended October 4, 2008, we repurchased 6.1 million shares of common stock at an aggregate cost of $216.5 million, or an average price of $35.28 per share, of which 4.6 million shares of common stock were repurchased under the previous $500 million stock repurchase program. Additionally, we settled $3.0 million on shares repurchased prior to the end of fiscal 2007.

As of October 4, 2008, we had repurchased 1.6 million shares of common stock at an aggregate cost of $61.1 million under our $250 million stock repurchase program resulting in $188.9 million remaining under this program, excluding related expenses.

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Analysis of Cash Flows

An analysis of our cash flows for the forty week period ended October 4, 2008 as compared to the forty week period ended October 6, 2007 is included below.

	Forty Week Periods Ended	
	October 4, 2008	October 6, 2007
	(in millions)	
Cash flows from operating activities	$ 375.8	$ 377.8
Cash flows from investing activities	(134.0)	(138.1)
Cash flows from financing activities	(235.1)	(236.0)
Net increase in cash and cash equivalents	$ 6.7	$ 3.7

Operating Activities

For the forty weeks ended October 4, 2008, net cash provided by operating activities decreased $1.9 million to $375.8 million, as compared to the forty weeks ended October 6, 2007. This net decrease in operating cash was driven primarily by:

- an increase in net income of $10.1 million during the forty weeks ended October 4, 2008 as compared to the comparable period in 2007;
- a $19.7 million decrease in benefit for deferred income taxes;
- a $7.8 million decrease in net losses on disposals of property and equipment, net;
- a $110.4 million increase in inventory driven by our parts availability initiative and initial build-up in certain premium branded products offset almost entirely by an increase in accounts payable of $108.4 million as a result of partnering with our suppliers and extending accounts payable terms; and
- an overall decrease in other working capital.

Investing Activities

For the forty weeks ended October 4, 2008, net cash used in investing activities decreased by $4.1 million to $134.0 million, as compared to the forty weeks ended October 6, 2007. The decrease in cash used was primarily from a reduction in store development.

Financing Activities

For the forty weeks ended October 4, 2008, net cash used in financing activities decreased by $0.8 million to $235.1 million, as compared to the forty weeks ended October 6, 2007.

Cash flows from financing activities increased primarily as result of:

- an increase in net borrowings under our term loan and revolving credit facility of $13.2 million.

Cash flows from financing activities decreased primarily as result of:

- an additional $8.2 million of common stock repurchases under our stock repurchase program; and
-

a decrease of $5.2 million from the issuance of common stock, primarily resulting from the decrease in exercise of stock options.

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Off-Balance-Sheet Arrangements

As of October 4, 2008, we had no off-balance-sheet arrangements as defined in Regulation S-K Item 303 of the SEC regulations. We include other off-balance-sheet arrangements in our contractual obligation table including operating lease payments, interest payments on our credit facility and letters of credit outstanding.

Contractual Obligations

As of October 4, 2008, there were no material changes to our outstanding contractual obligations as described in our Annual Report on Form 10-K for the year ended December 29, 2007. For information regarding our contractual obligations see “Contractual Obligations” in the Company’s Annual Report on Form 10-K for the year ended December 29, 2007.

Long Term Debt

Term Loan

As of October 4, 2008, we had borrowed $200 million under our unsecured four-year term loan. We entered into the term loan on December 4, 2007, with our wholly-owned subsidiary, Advance Stores Company, Incorporated, or Stores, serving as borrower. As of December 29, 2007, we had borrowed $50 million under the term loan. The entire $200 million of proceeds from this term loan were used to repurchase shares of our common stock under our stock repurchase program. The term loan terminates on October 5, 2011.

The interest rate on the term loan is based, at our option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.00% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. We have elected to use the 90-day adjusted LIBOR rate and have the ability and intent to continue to use this rate on our hedged borrowings. Under the terms of the term loan, the interest rate spread is based on our credit rating.

Revolving Credit Facility

In addition to the term loan, we have a $750 million unsecured five-year revolving credit facility with Stores serving as the borrower. The revolving credit facility also provides for the issuance of letters of credit with a sub limit of $300 million, and swingline loans in an amount not to exceed $50 million. We may request, subject to agreement by one or more lenders, that the total revolving commitment be increased by an amount not exceeding $250 million (up to a total commitment of $1 billion) during the term of the credit agreement. Voluntary prepayments and voluntary reductions of the revolving balance are permitted in whole or in part, at our option, in minimum principal amounts as specified in the revolving credit facility. The revolving credit facility terminates on October 5, 2011.

As of October 4, 2008, we had $267.0 million outstanding under our revolving credit facility, and letters of credit outstanding of $79.8 million, which reduced the availability under the revolving credit facility to $403.2 million. (The letters of credit generally have a term of one year or less.) A commitment fee is charged on the unused portion of the revolver, payable in arrears. The current commitment fee rate is 0.150% per annum.

The interest rate on borrowings under the revolving credit facility is based, at our option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 0.75% and 0.0% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. We have elected to use the 90-day adjusted LIBOR rate and have the ability and intent to continue to use this rate on our hedged borrowings. Under the terms of the revolving credit facility, the interest rate spread (and commitment fee) is based on our credit rating.

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Other

As of October 4, 2008, we also had $4.2 million outstanding under an economic development note. At October 4, 2008, we also had interest rate swaps in place that effectively fixed our interest rate on approximately 60% of our long-term debt.

Guarantees and Covenants

The term loan and revolving credit facility are fully and unconditionally guaranteed by Advance Auto Parts, Inc. Our debt agreements collectively contain covenants restricting our ability to, among other things: (1) create, incur or assume additional debt (including hedging arrangements), (2) incur liens or engage in sale-leaseback transactions, (3) make loans and investments, (4) guarantee obligations, (5) engage in certain mergers, acquisitions and asset sales, (6) change the nature of our business and the business conducted by our subsidiaries and (7) change our status as a holding company. We are required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. We were in compliance with these covenants at October 4, 2008. Our term loan and revolving credit facility also provide for customary events of default, covenant defaults and cross-defaults to our other material indebtedness.

Credit Ratings

At October 4, 2008, we had a credit rating from Standard & Poor’s of BB+ and a credit rating of Ba1 from Moody’s Investor Service. The current outlook by Standard & Poor’s and Moody’s is negative and stable, respectively, but does not affect our current credit ratings. The current pricing grid used to determine our borrowing rates under our term loan and revolving credit facility is based on our credit ratings. If these credit ratings decline, our interest expense may increase. Conversely, if these credit ratings improve, our interest expense may decrease. If our credit ratings decline, our access to financing may become more limited.

Seasonality

Our business is somewhat seasonal in nature, with the highest sales occurring in the spring and summer months. In addition, our business can be affected by weather conditions. While unusually heavy precipitation tends to soften sales as elective maintenance is deferred during such periods, extremely hot or cold weather tends to enhance sales by causing automotive parts to fail at an accelerated rate.

New Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position, or FSP, EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in Statement of Financial Accounting Standards, or SFAS, No. 128, “Earnings per Share.” Under the guidance of FSP EITF 03-6-1, nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. We are currently evaluating the impact of adopting FSP EITF 03-6-1.

In June 2008, the FASB Issued EITF No. 08-3, “Accounting by Lessees for Nonrefundable Maintenance Deposits.” EITF 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee’s maintenance accounting policy. Upon adoption entities must recognize the effect of the change as a change in

accounting principle. EITF 08-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We do not expect the adoption of EITF 08-3 to have a material impact on our financial condition, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets", which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS 142, "Goodwill and Other Intangible Assets." The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141, "Business Combinations." The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a significant impact on our financial condition, results of operations or cash flow.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of SFAS No. 133." SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are evaluating the impact the adoption of SFAS No. 161 will have on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13." FSP No. FAS 157-1 amends SFAS No. 157, "Fair Value Measurements," to exclude SFAS No. 13, "Accounting for Leases," and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS No. 141 or No. 141(R), Business Combinations (revised 2007), regardless of whether those assets and liabilities are related to leases. The FSP will be effective upon the full adoption of SFAS 157 during the first quarter of fiscal 2009 and will not have a material impact on our financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160, among other things, provides guidance and establishes amended accounting and reporting standards for a parent company's noncontrolling interest in a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We do not expect the adoption of SFAS No. 160 to have a material impact on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," which replaces SFAS No. 141, "Business Combinations." SFAS No. 141R, among other things, establishes principles and requirements for how an acquirer entity recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any controlling interests in the acquired entity; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Costs of the acquisition will be recognized separately from the business combination. SFAS No. 141R applies to business

combinations for fiscal years beginning after December 15, 2008.

Effective December 30, 2007, we adopted FASB Staff Position No. FIN 39-1, “Amendment of FASB Interpretation No. 39,” or FSP 39-1. FSP 39-1 amends FASB Interpretation No. 39, Offsetting of Amounts

Related to Certain Contracts (“FIN 39”), to require a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with FIN 39. FSP No. 39-1 also amends FIN 39 for certain terminology modifications. Upon adoption of FSP No. 39-1, we did not change our accounting policy of not offsetting fair value amounts recognized for derivative instruments under master netting arrangements. The adoption of FSP No. 39-1 did not have an impact on our financial position, results of operations or cash flows.

Effective December 30, 2007, we adopted the provisions of SFAS No. 157, “Fair Value Measurements” on our financial assets and liabilities subject to the deferral provisions of FSP 157-2. SFAS No. 157 clarifies the definition of fair value, establishes a framework for defining fair value as it relates to other accounting pronouncements that require or permit fair value measurements, and expands the disclosures of fair value measurements. The adoption of SFAS 157 did not have any impact on our financial condition, results of operations or cash flows. We did not apply the provisions of SFAS No. 157 for nonfinancial assets and liabilities except for those recognized or disclosed on a recurring basis (at least annually) as allowed by the issuance of FSP 157-2. We will fully adopt the provisions of SFAS 157 effective during our first quarter of fiscal 2009.

The deferral provided by FSP No. 157-2 applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and nonfinancial long-lived asset groups measured at fair value for an impairment assessment. We are evaluating the impact FSP No. 157-2 will have on our nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis.

Effective December 30, 2007, we adopted the provisions of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We elected not to apply fair value on our existing financial assets and liabilities upon adoption. Therefore, this adoption did not have a material effect on our financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).” SFAS No. 158 requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. We adopted the recognition provisions of SFAS No. 158 on December 30, 2006. We adopted the measurement date provisions of SFAS No. 158 on December 30, 2007. We have elected to apply the alternate transition method under which a 14-month measurement will cover the period from November 1, 2007 through January 3, 2009. The change in the measurement date will not have a material impact on our financial condition, results of operations or cash flows.

In February 2008, the FASB issued FASB Staff Position No. FAS 158-1, “Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides.” FSP No. FAS 158-1 updates the illustrations in Appendix B of FASB Statement No. 87, Appendix B of FASB Statement No. 88 and Appendix C of FASB Statement No. 106 to reflect the provisions of SFAS No. 158. FSP No. FAS 158-1 also amends the questions and answers contained in FASB Special Reports, which pertains to the implementation of Statements 87, 88 and 106. Finally, this FSP makes conforming changes to other guidance and technical corrections to SFAS No. 158. The conforming amendments made by this FSP are effective as of the effective dates of SFAS No. 158 and will not have a material impact on our financial position, results of operations or cash flows.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to cash flow risk due to changes in interest rates with respect to our long-term debt as a result of the movements in LIBOR. Our long-term debt primarily consists of borrowings under a revolving credit facility and a term loan. While we cannot predict the impact interest rate movements will have on our debt, exposure to rate changes is managed through the use of hedging activities. At October 4, 2008, we had interest rate swaps in place that effectively fixed our interest rate on approximately 60% of our long-term debt.

For additional information regarding market risk see "Item 7A. Quantitative and Qualitative Disclosures About Market Risks" in the Company's Annual Report on Form 10-K for the year ended December 29, 2007. At October 4, 2008, there had not been a material change to the information regarding market risk disclosed in the Company's Annual Report on Form 10-K for the year ended December 29, 2007.

Fuel Risk

We manage the risk of fluctuating fuel prices through fixed price commodity contracts for approximately 70% of our estimated diesel fuel consumption. We have applied the normal purchase election under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," to exclude these contracts from fair value accounting.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended October 4, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the information with respect to repurchases of our common stock for the quarter ended October 4, 2008 (amounts in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs (2)(3)
July 13, 2008, to August 9, 2008	99	$ 36.49	99	$ 238,885
August 10, 2008, to September 6, 2008	-	-	-	238,885
September 7, 2008, to October 4, 2008	1,273	39.27	1,273	188,911
Total	1,372	$ 39.07	1,372	$ 188,911

(1) Average price paid per share excludes related expenses paid on previous repurchases.

(2) All of the above repurchases were made on the open market at prevailing market rates plus related expenses under our stock repurchase program, which authorized the repurchase of up to $250 million in common stock. Our stock repurchase program was authorized by our Board of Directors and publicly announced on May 15, 2008 which replaced the remaining portion of the $500 million stock repurchase program authorized by our Board of Directors and publicly announced on August 8, 2007.

(3) The maximum dollar value yet to be purchased under our stock repurchase program excludes related expenses paid on previous purchases or anticipated expenses on future purchases.

ITEM 6. EXHIBITS

3.1 (1) Restated Certificate of Incorporation of Advance Auto Parts, Inc. ("Advance Auto")(as amended on May 19, 2004).

3.2 (2) Bylaws of Advance Auto (as amended on August 6, 2008).

	436,879	
Other noncurrent liabilities	175,618	220,961
Total liabilities	9,044,431	9,032,838
Commitments and contingencies		
Equity:		
Preferred stock, no par value; 5,000,000 shares authorized and none issued	—	—
Common stock, no par value; 200,000,000 shares authorized; 157,961,982 issued and outstanding at December 31, 2018 and 159,180,317 issued and outstanding at December 31, 2017	—	—
Paid-in capital	2,235,167	2,379,774

Retained earnings	2,066,415	1,597,897
Accumulated other comprehensive loss	(310,175)	(183,144)
Total Global Payments shareholders' equity	3,991,407	3,794,527
Noncontrolling interests	194,936	170,704
Total equity	4,186,343	3,965,231
Total liabilities and equity	$13,230,774	$12,998,069

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
Cash flows from operating activities:				
Net income	$484,667	$494,070	$137,683	$290,217
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of property and equipment	145,128	113,273	53,242	74,192
Amortization of acquired intangibles	377,685	337,878	194,329	113,689
Share-based compensation expense	57,826	39,095	18,707	30,809
Provision for operating losses and bad debts	43,237	48,443	24,074	27,202
Amortization of capitalized customer acquisition costs	51,541	45,098	14,982	1,776
Deferred income taxes	(1,451)	(250,670)	(33,523)	(18,162)
Gain on sale of investments	—	—	(41,150)	—
Other, net	(8,025)	44,070	32,718	15,370
Changes in operating assets and liabilities, net of the effects of business combinations:				
Accounts receivable	(33,386)	(14,096)	2,189	(14,542)
Settlement processing assets and obligations, net	83,478	(361,673)	35,599	218,061
Prepaid expenses and other assets	(160,800)	(129,427)	(44,164)	(64,216)
Accounts payable and other liabilities	66,182	146,327	121,140	(81,506)
Net cash provided by operating activities	1,106,082	512,388	515,826	592,890
Cash flows from investing activities:				
Business combinations and other acquisitions, net of cash acquired	(1,259,692)	(562,688)	(33,865)	(2,034,406)
Capital expenditures	(213,290)	(181,905)	(88,913)	(91,591)
Net proceeds from sale of investments	—	—	37,717	—
Net proceeds from sales of property and equipment	—	37,565	—	—
Other, net	(3,305)	(28,997)	(1,622)	(1,251)
Net cash used in investing activities	(1,476,287)	(736,025)	(86,683)	(2,127,248)
Cash flows from financing activities:				
Net proceeds from (repayments of) settlement lines of credit	70,783	221,532	20,582	(206,009)
Proceeds from long-term debt	2,774,214	1,994,324	1,299,000	6,078,230
Repayments of long-term debt	(2,304,314)	(1,781,541)	(1,381,161)	(3,691,608)
Payment of debt issuance costs	(16,345)	(9,520)	(9,279)	(63,382)
Repurchase of common stock	(208,198)	(34,811)	(178,165)	(135,954)
Proceeds from stock issued under share-based compensation plans	14,318	10,115	6,093	8,480
Common stock repurchased - share-based compensation plans	(31,510)	(31,761)	(20,390)	(12,236)
Purchase of subsidiary shares from noncontrolling interest	—	—	—	(7,550)
Proceeds from sale of subsidiary shares to noncontrolling interest	—	—	—	16,374
Distributions to noncontrolling interests	(5,686)	(9,301)	(12,365)	(23,308)

Dividends paid	(6,332)	(6,732)	(3,069)	(5,439)
Net cash provided by (used in) financing activities	286,930	352,305	(278,754)	1,957,598
Effect of exchange rate changes on cash	(41,702)	44,408	(32,338)	(29,251)
Increase (decrease) in cash and cash equivalents	(124,977)	173,076	118,051	393,989
Cash and cash equivalents, beginning of the period	1,335,855	1,162,779	1,044,728	650,739
Cash and cash equivalents, end of the period	$1,210,878	$1,335,855	$1,162,779	$1,044,728

See Notes to Consolidated Financial Statements.

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GLOBAL PAYMENTS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, except per share data)

	Number of Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Global Payments Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	159,180	$2,379,774	$1,597,897	$ (183,144)	$3,794,527	$ 170,704	$3,965,231
Cumulative effect of adoption of new accounting standards			50,969	(1,843)	49,126		49,126
Net income			452,053		452,053	32,614	484,667
Other comprehensive loss				(125,188)	(125,188)	(2,696)	(127,884)
Stock issued under share-based compensation plans	988	14,318			14,318		14,318
Common stock repurchased - share-based compensation plans	(279)	(32,727)			(32,727)		(32,727)
Share-based compensation expense		57,826			57,826		57,826
Distributions to noncontrolling interest						(5,686)	(5,686)
Repurchase of common stock	(1,927)	(184,024)	(28,172)		(212,196)		(212,196)
Dividends paid ($0.04 per share)			(6,332)		(6,332)		(6,332)
Balance at December 31, 2018	157,962	$2,235,167	$2,066,415	$ (310,175)	$3,991,407	$ 194,936	$4,186,343

	Number of Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Global Payments Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	152,186	$1,816,278	$1,137,230	$ (322,717)	$2,630,791	$ 148,551	$2,779,342
Net income			468,425		468,425	25,645	494,070
Other comprehensive income				139,573	139,573	13,807	153,380
Stock issued under share-based compensation plans	1,350	10,115			10,115		10,115
	(338)	(32,006)			(32,006)		(32,006)

Common stock repurchased - share-based compensation plans							
Share-based compensation expense		39,095			39,095		39,095
Issuance of common stock in connection with a business combination	6,358	572,079			572,079		572,079
Dissolution of a subsidiary			7,998		7,998	(7,998)	—
Distributions to noncontrolling interests					—	(9,301)	(9,301)
Repurchase of common stock	(376)	(25,787)	(9,024)		(34,811)		(34,811)
Dividends paid ($0.04 per share)			(6,732)		(6,732)		(6,732)
Balance at December 31, 2017	159,180	$2,379,774	$1,597,897	$(183,144)	$3,794,527	$170,704	$3,965,231

See Notes to Consolidated Financial Statements.

GLOBAL PAYMENTS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, except per share data)

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

	Number of Shares	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Global Payments Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at May 31, 2015	130,558	$148,742	$795,226	$ (185,992)	$757,976	$ 105,577	$863,553
Net income			271,666		271,666	18,551	290,217
Other comprehensive (loss) income				(60,058)	(60,058)	471	(59,587)

Stock issued under share-based compensation plans	591	8,480			8,480		8,480
Common stock repurchased - share-based compensation plans	(220)	(12,193)			(12,193)		(12,193)
Tax benefit from share-based compensation plans		7,889			7,889		7,889
Share-based compensation expense		30,809			30,809		30,809
Issuance of common stock in connection with a business combination	25,645	1,879,458			1,879,458		1,879,458
Purchase of subsidiary shares from noncontrolling interest		(11)			(11)	(7,539)	(7,550)
Sale of subsidiary shares to noncontrolling interest						16,374	16,374
Distributions to noncontrolling interests						(23,308)	(23,308)
Contribution of subsidiary shares to noncontrolling interest related to a business combination		3,853			3,853	20,802	24,655
Repurchase of common stock	(2,152)	(90,312)	(45,642)		(135,954)		(135,954)
Dividends paid ($0.04 per share)			(5,439)		(5,439)		(5,439)
Balance at May 31, 2016	154,422	$1,976,715	$1,015,811	$(246,050)	$2,746,476	$130,928	$2,877,404

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Business, consolidation and presentation— We are a leading worldwide provider of payment technology and software services delivering innovative solutions to our customers globally. Our technologies, services and employee expertise enable us to provide a broad range of solutions that allow our customers to accept various payment types and operate their businesses more efficiently. We distribute our services across a variety of channels in 32 countries throughout North America, Europe, the Asia-Pacific region and Brazil and operate in three reportable segments: North America, Europe and Asia-Pacific.

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

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

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

Recently Adopted Accounting Pronouncements and Rules Issued by the U.S. Securities and Exchange Commission (the "SEC")—We adopted Accounting Standards Update ("ASU") 2014-09, "Revenues from Contracts with Customers (Topic 606)" as well as other clarifications and technical guidance issued by the Financial Accounting Standards Board ("FASB") related to this new revenue standard ("ASC 606") and ASC Subtopic 340-40: "Other Assets and Deferred Costs - Contracts with Customers" ("ASC 340-40") on January 1, 2018. We elected the modified retrospective transition method, which resulted in a net increase to retained earnings of $51.0 million for the cumulative effect of applying the standard. The primary components of the cumulative-effect adjustment were changes in the accounting for certain costs to obtain customer contracts and the related income tax effects, which resulted in increases to other noncurrent assets and deferred income tax liabilities of $64.6 million and $15.6 million, respectively. Previously, we amortized these assets to expense over the related contract term. Under ASC 340-40, we now amortize these assets over the expected period of benefit, which is generally longer than the initial contract term. Under the new standard, we also capitalized certain costs that were not previously capitalized, including certain commissions and the related payroll taxes and certain costs incurred to fulfill a contract before the performance obligation has been satisfied, primarily compensation and related payroll taxes for employees engaged in customer implementation activities in our technology-enabled businesses.

Prior to the adoption of ASC 606, we presented payments made to certain third parties, including payment networks, as a component of operating expenses. For the year ended December 31, 2018, we presented revenue net of these third-party payments. This change in presentation had the effect of reducing our revenues and operating expenses by the same amounts. As a result, revenues, cost of service and selling, general and administrative expenses were lower than the amounts that would have been presented if not for the effect of the new revenue accounting standard by

$1,110.8 million, $1,042.9 million and $67.9 million, respectively, for the year ended December 31, 2018. The adoption of ASC 606 did not have a material effect on any other line items in our consolidated statement of income for year ended December 31, 2018 or on any other line items in our consolidated balance sheet as of December 31, 2018 and had no effect on our cash flows from operating activities, investing activities or financing activities included in our consolidated statement of cash flows for the year ended December 31, 2018.

In October 2018, the FASB issued ASU 2018-16, "Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes." ASU 2018-16 provides for the use of the Overnight Index Swap ("OIS") rate based on Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. In addition to the interest rates on direct Treasury obligations

of the U.S. government, the London Interbank Offered Rate ("LIBOR") Swap Rate, the OIS rate based on the Fed Funds Effective Rate and the Securities Industry and Financial Markets Association Municipal Swap Rate are also permitted. We adopted ASU 2018-16 with no effect on our consolidated financial statements.

In August 2018, the SEC issued a final rule that amends certain of its disclosure requirements. The changes are generally intended to reduce or eliminate certain disclosures that have become redundant, duplicative, overlapping, outdated or superseded in light of other disclosures requirements or changes in the information environment. The rule also requires SEC registrants to present changes in stockholders' equity and the amount of dividends per share for each class of shares on a quarterly basis for the current and prior-year periods. The final rule was effective for SEC filings on Forms 10-Q and 10-K made on or after November 5, 2018. As a result, we have reduced or eliminated certain disclosures in this Annual Report on Form 10-K for the year ended December 31, 2018, as permitted, and we will present the quarterly changes in 2019.

In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 provides an option to reclassify stranded tax effects within accumulated other comprehensive income ("AOCI") to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the U.S. Tax Cuts and Jobs Act of 2017 (the "2017 U.S. Tax Act") is recorded. We adopted this ASU during 2018 and elected the option to reclassify stranded tax effects within AOCI to retained earnings in the period of adoption with no material effect on our consolidated financial statements. Under this transition method, we did not recast the prior-period financial statements presented.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. In addition, the amendments in this update modify disclosure requirements for presentation of hedging activities. Those modifications include a tabular disclosure related to the effect on the income statement of fair value and cash flow hedges and eliminate the requirement to disclose the ineffective portion of the change in fair value of hedging instruments, if any. We adopted ASU 2017-12 on January 1, 2018 with no effect on our consolidated financial statements, except required revisions to our disclosures.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." ASU 2017-01 clarifies the definition of a business, which affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The new standard is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses, with the expectation that fewer will qualify as acquisitions (or disposals) of businesses. ASU 2017-01 became effective for us on January 1, 2018. These amendments have been applied prospectively from the date of adoption. We applied the clarified definition of a business to the business combinations we completed in 2018 with no effect on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." The amendments in this update state that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory, such as intellectual property and property and equipment, when the transfer occurs. We adopted ASU 2016-16 on January 1, 2018 using the modified retrospective transition method with no material effect on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which was further clarified in ASU 2018-03, issued by the FASB in February 2018. The amendments in ASU 2016-01 and ASU 2018-03 address certain aspects of

recognition, measurement, presentation and disclosure of financial instruments. The amendments supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures and limited liability companies) to be measured at fair value with changes in the fair value recognized through earnings. Equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this update. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. We adopted ASU 2016-01 on January 1, 2018 using the modified retrospective transition

method and elected to account for certain of our equity investments that have no readily determinable fair value using the alternative cost method, which had no effect on our consolidated financial statements.

Revenue recognition— Our payment services customers contract with us for payment services, which we provide in exchange for consideration for completed transactions. Our payment solutions are similar around the world in that we enable our customers to accept card, electronic, check and digital-based payments. Our comprehensive offerings include, but are not limited to, authorization services, settlement and funding services, customer support and help-desk functions, chargeback resolution, payment security services, consolidated billing and statements and on-line reporting. In addition, we may sell or rent point-of-sale terminals or other equipment to customers.

On January 1, 2018, we adopted ASC 606. Pursuant to ASC 606, at contract inception, we assess the goods and services promised in our contracts with customers and identify a performance obligation for each promise to transfer to the customer a good or service that is distinct. For our payment services specifically, the nature of our promise to the customer is that we stand ready to process transactions the customer requests on a daily basis over the contract term. Since the timing and quantity of transactions to be processed by us is not determinable, we view payment services to comprise an obligation to stand ready to process as many transactions as the customer requests. Under a stand-ready obligation, the evaluation of the nature of our performance obligation is focused on each time increment rather than the underlying activities. Therefore, we view payment services to comprise a series of distinct days of service that are substantially the same and have the same pattern of transfer to the customer. Accordingly, the promise to stand ready is accounted for as a single-series performance obligation.

In order to provide our payment services, we route and clear each transaction through the applicable payment network. We obtain authorization for the transaction and request funds settlement from the card issuing financial institution through the payment network. When third parties are involved in the transfer of goods or services to our customer, we consider the nature of each specific promised good or service and apply judgment to determine whether we control the good or service before it is transferred to the customer or whether we are acting as an agent of the third party. To determine whether or not we control the good or service before it is transferred to the customer, we assess indicators including whether we or the third party is primarily responsible for fulfillment and which party has discretion in determining pricing for the good or service, as well as other considerations. Based on our assessment of these indicators, we have concluded that our promise to our customer to provide our payment services is distinct from the services provided by the card issuing financial institutions and payment networks in connection with payment transactions. We do not have the ability to direct the use of and obtain substantially all of the benefits of the services provided by the card issuing financial institutions and payment networks before those services are transferred to our customer, and on that basis, we do not control those services prior to being transferred to our customer. As a result, upon adoption of ASC 606, we present our revenue net of the interchange fees charged by the card issuing financial institutions and the fees charged by the payment networks.

The majority of our payment services are priced as a percentage of transaction value or a specified fee per transaction, depending on the card type. We also charge other per occurrence fees based on specific services that may be unrelated to the number of transactions or transaction value. Given the nature of the promise and the underlying fees based on unknown quantities or outcomes of services to be performed over the contract term, the total consideration is determined to be variable consideration. The variable consideration for our payment service is usage-based and, therefore, it specifically relates to our efforts to satisfy our payment services obligation. The variability is satisfied each day the service is provided to the customer. We directly ascribe variable fees to the distinct day of service to which it relates, and we consider the services performed each day in order to ascribe the appropriate amount of total fees to that day. Therefore, we measure revenue for our payment service on a daily basis based on the services that are performed on that day.

Certain of our technology-enabled customer arrangements contain multiple promises, such as payment services, perpetual software licenses, software-as-a-service ("SaaS"), maintenance, installation services, training and equipment, each of which is evaluated to determine whether it represents a separate performance obligation. SaaS arrangements are generally offered on a subscription basis, providing the customers with access to the SaaS platform along with general support and maintenance services. Because these promised services within our SaaS arrangements are delivered concurrently over the contract term, we account for these promises as if they are a single performance obligation that includes a series of distinct services with the same pattern of transfer to the customer. In addition, certain installation services are not considered distinct from the SaaS and are recognized over the expected period of benefit.

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Once we determine the performance obligations and the transaction price, including an estimate of any variable consideration, we then allocate the transaction price to each performance obligation in the contract using a relative standalone selling price method. We determine standalone selling price based on the price at which the good or service is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price by considering all reasonably available information, including market conditions, trends or other company- or customer-specific factors. Substantially all of the performance obligations described above are satisfied over time. The performance obligations associated with equipment sales, perpetual software licenses and certain professional services are generally satisfied at a point in time when they are transferred to the customer. For certain other professional services that represent separate performance obligations, we generally use the input method and recognize revenue based on the number of hours incurred or services performed to date in relation to the total services expected to be required to satisfy the performance obligation.

We satisfy the combined SaaS performance obligation by standing ready to provide access to the SaaS. Consideration for SaaS arrangements may consist of fixed- or usage-based fees. Revenue is recognized over the period for which the services are provided or by directly ascribing any variable fees to the distinct day of service based on the services that are performed on that day.

For periods prior to our adoption of ASC 606, we recognized revenue when services were performed. For arrangements with multiple elements, such as equipment, perpetual licenses, SaaS, maintenance, installation and training, we allocated consideration to each element based on the relative-selling-price method. In multiple element arrangements where more-than-incidental software elements were included, the entire amount of revenue under the arrangement was deferred until all elements were delivered or objective evidence of the fair value of the undelivered items was established. The amounts paid in advance by customers and amounts deferred for software arrangements were reflected as unearned revenue in the consolidated balance sheets with the portion estimated to be recognized as revenue within the next twelve months reflected in current liabilities and the remainder reflected in other noncurrent liabilities.

Cash and cash equivalents— Cash and cash equivalents include cash on hand and all liquid investments with a maturity of three months or less when purchased. We consider certain portions of our cash and cash equivalents to be unrestricted but not available for general purposes. The amount of cash that we consider to be available for general purposes does not include the following: (i) settlement-related cash balances, (ii) funds held as collateral for merchant losses ("Merchant Reserves") and (iii) funds held for customers. Settlement-related cash balances represent funds that we hold when the incoming amount from the card networks precedes the funding obligation to the merchant. Settlement-related cash balances are not restricted; however, these funds are generally paid out in satisfaction of settlement processing obligations the following day. Merchant Reserves serve as collateral to minimize contingent liabilities associated with any losses that may occur under the merchant agreement. We record a corresponding liability in settlement processing assets and settlement processing obligations in our consolidated balance sheet. While this cash is not restricted in its use, we believe that designating this cash as Merchant Reserves strengthens our fiduciary standing with financial institutions that sponsor us and is in accordance with guidelines set by the card networks. See "Note 4—Settlement Processing Assets and Obligations" and discussion below for further information. Funds held for customers and the corresponding liability that we record in "customer deposits" include amounts collected prior to remittance on our customers' behalf.

Accounts receivable, contract assets and contract liabilities— Upon adoption of ASC 606, we were required to describe our accounting policies for accounts receivable, contract assets and contract liabilities. A contract with a customer creates legal rights and obligations. As we perform under customer contracts, our right to consideration that is unconditional is considered to be accounts receivable. If our right to consideration for such performance is contingent upon a future event or satisfaction of additional performance obligations, the amount of revenues we have recognized in excess of the amount we have billed to the customer is recognized as a contract asset. Contract liabilities represent

consideration received from customers in excess of revenues recognized. At December 31, 2018, contract assets and liabilities are presented net at the individual contract level in the consolidated balance sheet and are classified as current or noncurrent based on the nature of the underlying contractual rights and obligations.

Contract Costs— Upon adoption of ASC 340-40, we capitalize costs we incur costs to obtain contracts with customers, including employee sales commissions and fees to business partners. At contract inception, we capitalize such costs that we expect to recover and that would not have been incurred if the contract had not been obtained. We also capitalize certain costs incurred to fulfill our contracts with customers that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy our performance obligation under the contract and (iii) are expected to be recovered through revenue generated under the contract. Capitalized costs to obtain and to fulfill contracts were included in other noncurrent assets as of December 31, 2018.

Contract costs are amortized on a systematic basis consistent with the transfer to the customer of the goods or services to which the asset relates. A straight-line or proportional amortization method is used depending upon which method best depicts the pattern of transfer of the goods or services to the customer. We evaluate contract costs for impairment by comparing, on a pooled basis, the expected future net cash flows from underlying customer relationships to the carrying amount of the capitalized contract costs.

We amortize these assets over the expected period of benefit, which, based on the factors noted above, is typically seven years. In order to determine the appropriate amortization period for capitalized contract costs, we consider a combination of factors, including customer attrition rates, estimated terms of customer relationships, the useful lives of technology we use to provide goods and services to our customers, whether future contract renewals are expected and if there is any incremental commission to be paid associated with a contract renewal. Costs to obtain a contract with an expected period of benefit of one year or less are recognized as an expense when incurred.

Prior to our adoption of ASC 606, we capitalized certain customer acquisition costs, which were included in other noncurrent assets. Capitalized customer acquisition costs consisted of (1) up-front signing bonus payments made to certain salespersons for the establishment of certain of our new merchant relationships and (2) a deferred acquisition cost representing the estimated cost of buying out the residual commissions of certain vested salespersons. Capitalized customer acquisition costs represented incremental, direct customer acquisition costs that were recoverable through merchant profitability. The capitalized customer acquisition costs were amortized using a method which approximated a proportional revenue approach over the initial term of the related merchant contract. Up-front signing bonuses paid for certain new accounts were based on the estimated profitability for the first year of the merchant contract. The signing bonus, amount capitalized, and related amortization were adjusted after the first year to reflect the actual profitability generated by the merchant contract during that year. The deferred customer acquisition cost asset was accrued over the first year of merchant processing, consistent with the build-up in the accrued buyout liability, as described below.

Settlement processing assets and obligations— Settlement processing assets and obligations represent intermediary balances arising in our settlement process. In accordance with ASC Subtopic 210-20, "Offsetting," we apply offsetting to our settlement processing assets and obligations where a right of setoff exists. See "Note 4—Settlement Processing Assets and Obligations" for further information.

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

Property and equipment— Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method. Leasehold improvements are amortized over the lesser of the remaining term of the lease and the useful life of the asset.

We develop software that is used to provide services to customers. Capitalization of internal-use software, primarily associated with operating platforms, occurs when we have completed the preliminary project stage, management

authorizes the project, management commits to funding the project, it is probable the project will be completed and the project will be used to perform the function intended. The preliminary project stage consists of the conceptual formulation of alternatives, the evaluation of alternatives, the determination of existence of needed technology and the final selection of alternatives. Costs incurred during the preliminary project stage are expensed as incurred.

Goodwill— We perform our annual goodwill impairment test as of October 1. We test goodwill for impairment at the reporting unit level annually and more often if an event occurs or circumstances change that indicate the fair value of a reporting unit is below its carrying amount. We have the option of performing a qualitative assessment of impairment to determine whether any

further quantitative assessment for impairment is necessary. The option of whether or not to perform a qualitative assessment is made annually and may vary by reporting unit.

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

We have seven reporting units: North America Payments, Integrated Solutions and Vertical Markets, United Kingdom, Asia-Pacific, Central and Eastern Europe, Russia and Spain. As of October 1, 2018, we elected to perform a qualitative assessment of impairment for each of our reporting units. We determined on the basis of qualitative factors that the fair value of each reporting unit was not more likely than not less than the respective carrying amount. We believe that the fair value of each of our reporting units is substantially in excess of its carrying amount.

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

We use the straight-line method of amortization for our amortizable acquired technologies, trademarks and trade names and contract-based intangibles. Amortization for most of our customer-related intangible assets is calculated using an accelerated method in which we calculate the expected cash flows for that period that were used in determining the acquisition-date fair value of the asset and divide that amount by the expected total cash flows over the estimated life of the asset. We multiply that percentage by the initial carrying amount of the asset to arrive at the amortization expense for that period. If the cash flow patterns that we experience differ significantly from our initial estimates, we adjust the amortization schedule prospectively. These cash flow patterns are derived using certain assumptions and cost allocations due to a significant number of asset interdependencies that exist in our business. We believe that our accelerated method reflects the expected pattern of the benefit to be derived from the acquired customer relationships.

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

Accrued buyout liability— Certain of our salespersons are paid residual commissions based on the profitability generated by certain merchants. We have the right, but not the obligation, to buy out some or all of these commissions and intend to do so periodically. Such purchases of the commissions are at a fixed multiple of the last 12 months'

commissions. Because of our intent and ability to execute purchases of the residual commissions, and the mutual understanding between us and our salespersons, we have accounted for this deferred compensation arrangement pursuant to the substantive nature of the plan. We therefore record the amount that we would have to pay (the "settlement cost") to buy out non-servicing related commissions in their entirety from vested salespersons, and an estimated amount for unvested salespersons based on their progress towards vesting and the expected percentage that will become vested. As noted above, as the liability increases over the first year of the related merchant contract, we record a related asset. Subsequent changes in the estimated accrued buyout liability due to merchant attrition, same-store sales growth or contraction and changes in profitability are included in the selling, general and administrative expense in the consolidated statements of income.

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

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

ASC Topic 740, "Income Taxes" ("ASC 740") requires companies to recognize the effect of tax law changes in the period of enactment. To address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain income tax effects of the 2017 U.S. Tax Act, which was enacted on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which in March 2018 was codified by the FASB in ASC 740. SAB 118 provided guidance for registrants regarding the application of ASC 740 and permitted up to one year after the enactment date for the registrant to complete its accounting.

In applying the provisions of SAB 118, our income tax benefit for the year ended December 31, 2017 reflected provisional amounts for specific income tax effects as a result of the enactment of the 2017 U.S. Tax Act for which our accounting was incomplete but could be reasonably estimated as of December 31, 2017. During the year ended December 31, 2018, we continued to analyze our foreign tax pools and resulting foreign tax credits and reduced the estimated transition tax liability, which completed our accounting for the transition effects of the 2017 U.S. Tax Act. In accounting for the effects of the 2017 U.S. Tax Act, we made a policy election to treat taxes due, if any, under the Global Intangible Low-taxed Income provision as an expense in the period incurred.

We periodically assess our tax exposures related to periods that are open to examination. Based on the latest available information, we evaluate our tax positions to determine whether the position will more likely than not be sustained upon examination by the U.S. Internal Revenue Service or other taxing authorities. If we cannot reach a more-likely-than-not determination, no benefit is recorded. If we determine that the tax position is more likely than not to be sustained, we record the largest amount of benefit that is more likely than not to be realized when the tax position is settled. We record interest and penalties related to unrecognized income tax benefits in interest and selling, general and administrative expenses, respectively, in our consolidated statements of income.

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

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

We formally assess, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in cash flows of the related underlying exposure. Fluctuations in the value of these instruments generally are offset by changes in the forecasted cash flows of the underlying exposures

being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. We designated each of our interest rate swap agreements as a cash flow hedge of interest payments on variable rate borrowings. See "Note 8—Long-Term Debt and Lines of Credit" for more information about our interest rate swaps.

Fair value measurements— Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. GAAP establishes a fair value hierarchy that categorizes the inputs to valuation techniques into three broad levels. Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. Level 2 inputs are based on other observable market data, such as quoted prices for similar assets and

liabilities, and inputs other than quoted prices that are observable such as interest rates and yield curves. Level 3 inputs are developed from unobservable data reflecting our assumptions and include situations where there is little or no market activity for the asset or liability.

Fair value of financial instruments— The carrying amounts of cash and cash equivalents, receivables, settlement lines of credit, accounts payable and accrued liabilities, approximate their fair value given the short-term nature of these items. Our long-term debt includes variable interest rates based on LIBOR, the Federal Funds Effective Rate (as defined in the debt agreements) or the prime rate, plus a margin based on our leverage position. At December 31, 2018, the carrying amount of our long-term debt, exclusive of debt issuance costs, approximated fair value, which is calculated using Level 2 inputs. The fair values of our swap agreements were determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date, and classified within Level 2 of the valuation hierarchy. See "Note 8—Long-Term Debt and Lines of Credit" for further information.

We have investments in equity instruments without readily determinable fair value, including our investment in certain preferred shares of Visa Inc. ("Visa") that we accounted for using the cost method. Upon the adoption of ASU 2016-01 on January 1, 2018, we elected a measurement alternative for equity instruments that do not have readily determinable fair values. Under such alternative, these instruments are measured at cost plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Any resulting change in carrying amount would be reflected in net income. See "Note 7—Other Assets" for more information about our investment in certain preferred shares of Visa.

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

Gains and losses on transactions denominated in currencies other than the functional currency are generally included in determining net income for the period. For the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016, our transaction gains and losses were insignificant. Transaction gains and losses on intercompany balances of a long-term investment nature are recorded as a component of other comprehensive income and included in accumulated comprehensive income within equity in our consolidated balance sheets.

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

Diluted EPS is computed by dividing net income attributable to Global Payments by the weighted-average number of shares outstanding during the period, including the effect of share-based awards that would have a dilutive effect on earnings per share. All stock options with an exercise price lower than the average market share price of our common stock for the period are assumed to have a dilutive effect on EPS. There were no stock options that would have an antidilutive effect on the computation of diluted EPS for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period or for the year ended May 31, 2016.

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

	Years Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
Basic weighted-average number of shares outstanding	158,672	154,652	153,342	132,284
Plus: Dilutive effect of stock options and other share-based awards	599	876	889	883
Diluted weighted-average number of shares outstanding	159,271	155,528	154,231	133,167

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

Conforming Presentation— To conform to the presentation for the year ended December 31, 2018, we modified the consolidated statements of cash flows for the year ended December 31, 2017, the 2016 fiscal transition period and the year ended May 31, 2016 to include changes in "capitalized customer acquisition costs" of $82.9 million, $58.2 million and $12.0 million, respectively, within "prepaid expenses and other assets" among the changes in operating assets and liabilities. Previously, changes in "capitalized customer acquisition costs" were presented as a separate line in the consolidated statements of cash flows. These modifications had no effect on net cash provided by operating activities for any period.

Recently Issued Pronouncements Not Yet Adopted

ASC 842 - New Lease Accounting Standard

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 will require us to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. In addition, several new disclosures will be required.

We will adopt ASU 2016-02, as well as other related clarifications and interpretive guidance issued by the FASB, when it becomes effective for us on January 1, 2019. We will elect the optional modified retrospective transition method to apply the provisions of the new standard at the adoption date, which will result in measurement and recognition of assets and liabilities for the rights and obligations created by leases. The lease liability will be measured as the present value of remaining lease payments, and the corresponding right of use asset will be measured at an amount equal to the lease liability adjusted by the amount of certain assets and liabilities, such as deferred lease obligations and prepaid rent, related to our operating leases previously recognized on the balance sheet immediately before the date of initial application. Under this transition method, we will not recast the prior-period financial statements presented.

We have made progress in the execution of our implementation plan, and we are substantially complete with our evaluation of the effect of ASU 2016-02 on our consolidated financial statements. We currently estimate that we will recognize lease liabilities on the balance sheet of approximately $275 million at adoption for our operating leases. We

expect right of use assets will be approximately $235 million, reflecting adjustments for the net amount of lease-related items previously recognized on the balance sheet. We do not expect adoption to have a material effect on any line items in our consolidated statement of income or on our cash flows from operating activities, investing activities or financing activities included in our consolidated statement of cash flows.

We will elect the transition package of three practical expedients, which among other things, allows for the carryforward of historical lease classifications, and we will make an accounting policy election to not apply the recognition requirements to leases with a term of less than twelve months. We will also elect a lessee practical expedient, as an accounting policy election by class of underlying asset, to account for lease and nonlease components as a combined single lease component. Finally, we will make

an accounting policy election to determine the incremental borrowing rate at transition, based on the remaining lease term at the date of adoption.

Our existing leases consist primarily of real estate leases for office space throughout the markets in which we conduct business. We are currently finalizing the analysis of our existing lease arrangements. We will implement new accounting processes and internal controls to meet the requirements for financial reporting and disclosures of our leases. We have implemented a new technology solution to assist with the necessary calculations to support the accounting and disclosure requirements of the new lease accounting standard. We are coordinating with various internal stakeholders to evaluate and test the newly implemented technology, processes and controls. We expect these final implementation and evaluation activities will continue during the first quarter of 2019.

Other Accounting Standards Updates Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is Service Contract (A Consensus of the FASB Emerging Issues Task Force)." ASU 2018-15 provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The amendments in this update also provide additional disclosure requirements to disclose the nature of an entity’s hosting arrangements that are service contracts. ASU 2018-15 is effective for annual and interim periods beginning after December 15, 2019. We are evaluating the effect of ASU 2018-15 on our consolidated financial statements.

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

NOTE 2— ACQUISITIONS

The transactions described below were accounted for as business combinations, which requires that we record the assets acquired and liabilities assumed at fair value as of the acquisition date.

SICOM

On October 17, 2018, we acquired SICOM Systems, Inc. ("SICOM") for total purchase consideration of $409.2 million, which we funded with cash on hand and by drawing on our Revolving Credit Facility (described in "Note 8—Long-Term Debt and Lines of Credit"). SICOM is a provider of end-to-end enterprise, cloud-based software solutions and other technologies to quick service restaurants and food service management companies. SICOM's technologies are complementary to our existing Xenial solutions, and we believe this acquisition will expand our software-driven payments strategy by enabling us to increase our capabilities and expand on our existing presence in the restaurant vertical market. Prior to the acquisition, SICOM was indirectly owned by a private equity investment firm where one of our board members is a partner and investor. His direct interest in the transaction was approximately $1.1 million, the amount distributed to him based on his investment interest in the fund of the private equity firm that sold SICOM to us. Based on consideration of all relevant information, the audit committee of our board of directors recommended that the board approve the acquisition of SICOM, which it did.

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The provisional estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed as of December 31, 2018, including a reconciliation to the total purchase consideration, were as follows (in thousands):

Cash and cash equivalents	$7,540
Property and equipment	5,943
Identified intangible assets	188,294
Other assets	22,278
Deferred income taxes	(48,448)
Other liabilities	(31,250)
Total identifiable net assets	144,357
Goodwill	264,844
Total purchase consideration	$409,201

As of December 31, 2018, we considered these balances to be provisional because we were still in the process of determining the final purchase consideration, which is subject to adjustment pursuant to the purchase agreement, and gathering and reviewing information to support the valuations of the assets acquired and liabilities assumed.

Goodwill arising from the acquisition of $264.8 million, included in the North America segment, was attributable to expected growth opportunities, an assembled workforce and potential synergies from combining our existing businesses. We expect that approximately $50 million of the goodwill from this acquisition will be deductible for income tax purposes.

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

	Estimated Fair Values	Weighted-Average Estimated Amortization Periods
	(in thousands)	(years)
Customer-related intangible assets	$ 104,900	14
Acquired technologies	65,312	6
Trademarks and trade names	11,202	5
Covenants-not-to-compete	6,880	5
Total estimated acquired intangible assets	$ 188,294	10

Transaction costs associated with the acquisition of SICOM were not material, and the revenues and operating income of SICOM were not material to our consolidated results of operations during the year ended December 31, 2018. The historical revenues and operating income of SICOM were not material to our historical consolidated results of operations for the purpose of presenting unaudited pro forma information for the years ended December 31, 2018 and 2017.

AdvancedMD

On September 4, 2018, we acquired AdvancedMD, Inc. ("AdvancedMD") for total purchase consideration of $706.9 million, which we funded with cash on hand and by drawing on our Revolving Credit Facility. AdvancedMD is a provider of cloud-based enterprise software solutions to small-to-medium sized ambulatory care physician practices in the United States. We believe this acquisition will expand our software-driven payments strategy by enabling us to enter the healthcare vertical market, a large and fragmented market with strong payment fundamentals and attractive growth opportunities.

The provisional estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed as of December 31, 2018, including a reconciliation to the total purchase consideration, were as follows (in thousands):

Cash and cash equivalents	$7,657
Property and equipment	5,672
Identified intangible assets	419,500
Other assets	11,958
Deferred income taxes	(98,979)
Other liabilities	(15,624)
Total identifiable net assets	330,184
Goodwill	376,701
Total purchase consideration	$706,885

During the fourth quarter of 2018, we recorded adjustments to increase the estimated acquisition-date fair value of identified intangible assets by approximately $115 million to increase the estimated acquisition-date fair value of deferred income tax liabilities by approximately $24 million and to decrease the estimated acquisition-date fair value of goodwill by approximately $92 million. The adjustments were the result of our refinement of certain estimates made as of September 30, 2018. As of December 31, 2018, we considered these balances to be provisional because we were still in the process of gathering and reviewing information to support the valuation of the assets acquired and liabilities assumed.

Goodwill arising from the acquisition of $376.7 million, included in the North America segment, was attributable to expected growth opportunities, an assembled workforce and potential synergies from combining our existing businesses. We expect that substantially all of the goodwill from this acquisition will not be deductible for income tax purposes.

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

	Estimated Fair Values	Weighted-Average Estimated Amortization Periods
	(in thousands)	(years)
Customer-related intangible assets	$ 303,100	11
Acquired technologies	83,700	5
Trademarks and trade names	32,700	15
Total estimated acquired intangible assets	$ 419,500	10

Transaction costs associated with the acquisition of AdvancedMD were not material, and the revenues and operating income of AdvancedMD were not material to our consolidated results of operations during the year ended December 31, 2018. The historical revenues and operating income of AdvancedMD were not material to our historical

consolidated results of operations for the purpose of presenting unaudited pro forma information for the years ended December 31, 2018 and 2017.

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ACTIVE Network

We acquired the communities and sports divisions of Athlaction Topco, LLC ("ACTIVE Network") on September 1, 2017, for total purchase consideration of $1.2 billion. ACTIVE Network delivers cloud-based enterprise software, including payment technology solutions, to event organizers in the communities and health and fitness markets. This acquisition aligns with our technology-enabled, software-driven strategy and adds an enterprise software business operating in two additional vertical markets that we believe offer attractive growth fundamentals.

The following table summarizes the cash and non-cash components of the consideration transferred on September 1, 2017 (in thousands):

Cash consideration paid to ACTIVE Network stockholders	$599,497
Fair value of Global Payments common stock issued to ACTIVE Network stockholders	572,079
Total purchase consideration	$1,171,576

We funded the cash consideration primarily by drawing on our Revolving Credit Facility. The acquisition-date fair value of 6,357,509 shares of our common stock issued to the sellers was determined based on the share price of our common stock as of the acquisition date and the effect of certain transfer restrictions.

The estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed, provisionally determined as of December 31, 2017 and as subsequently revised for measurement-period adjustments, including a reconciliation to the total purchase consideration, were as follows:

	Provisional at December 31, 2017	Measurement-Period Adjustments	Final
	(in thousands)		
Cash and cash equivalents	$42,913	$ —	$42,913
Property and equipment	21,985	(133)	21,852
Identified intangible assets	410,545	—	410,545
Other assets	87,240	(97)	87,143
Deferred income taxes	(31,643)	4,003	(27,640)
Other liabilities	(144,132)	(3,349)	(147,481)
Total identifiable net assets	386,908	424	387,332
Goodwill	784,668	(424)	784,244
Total purchase consideration	$1,171,576	$ —	$1,171,576

The measurement-period adjustments were the result of continued refinement of certain estimates, primarily those regarding the measurement of certain contingencies and deferred income taxes.

Goodwill of $784.2 million arising from the acquisition, included in the North America operating segment, was attributable to expected growth opportunities, an assembled workforce and potential synergies from combining our existing businesses. We expect that approximately 80% of the goodwill will be deductible for income tax purposes.

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

	Estimated Fair Values	Weighted-Average Estimated Amortization Periods
	(in thousands)	(years)
Customer-related intangible assets	$ 189,000	17
Acquired technologies	153,300	9
Trademarks and trade names	59,400	15
Covenants-not-to-compete	8,845	3
Total estimated acquired intangible assets	$ 410,545	13

Heartland

We merged with Heartland on April 22, 2016 for total purchase consideration of $3.9 billion. The merger significantly expanded our small and medium-sized enterprise distribution, customer base and vertical reach in the United States. The following table summarizes the cash and non-cash components of the consideration transferred on April 22, 2016 (in thousands):

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

The merger date fair value of common stock issued to Heartland stockholders and equity award holders was determined based on 38.4 million shares of Heartland common stock, including common stock outstanding and equity awards for which vesting accelerated in accordance with the Merger Agreement, multiplied by the exchange ratio of 0.6687 and the closing share price of Global Payments common stock as of April 22, 2016 of $73.29 per share.

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The estimated acquisition-date fair values of major classes of assets acquired and liabilities assumed provisionally determined as of December 31, 2016 and as subsequently revised for measurement-period adjustments, including a reconciliation to the total purchase consideration, were as follows:

	Provisional at December 31, 2016	Measurement-Period Adjustments	Final
	(in thousands)		
Cash and cash equivalents	$304,747	$ —	$304,747
Accounts receivable	70,385	—	70,385
Prepaid expenses and other assets	103,090	(5,131)	97,959
Identified intangible assets	1,639,040	—	1,639,040
Property and equipment	106,583	—	106,583
Debt	(437,933)	—	(437,933)
Accounts payable and accrued liabilities	(457,763)	(65)	(457,828)
Settlement processing obligations	(36,578)	(3,727)	(40,305)
Deferred income taxes	(518,794)	18,907	(499,887)
Other liabilities	(64,938)	(33,495)	(98,433)
Total identifiable net assets	707,839	(23,511)	684,328
Goodwill	3,214,981	23,511	3,238,492
Total purchase consideration	$3,922,820	$ —	$3,922,820

The measurement-period adjustments were the result of continued refinement of certain estimates, particularly regarding certain tax positions and deferred income taxes.

Goodwill of $3.2 billion arising from the merger, included in the North America segment, was attributable to expected growth opportunities, an assembled workforce and potential synergies from combining our existing businesses, and is not deductible for income tax purposes. During the year ended December 31, 2016, we incurred transaction costs in connection with the merger of $24.7 million, which were recorded in selling, general and administrative expenses in the consolidated statements of income.

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

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

FIS Gaming Business

On June 1, 2015, we acquired certain assets of Certegy Check Services, Inc., a wholly-owned subsidiary of Fidelity National Information Services, Inc. ("FIS"). Under the purchase arrangement, we acquired substantially all of the assets of its gaming business related to licensed gaming operators (the "FIS Gaming Business"), including relationships with gaming clients in approximately 260 locations as of the acquisition date, for $237.5 million, funded from borrowings on our Revolving Credit Facility and cash on hand. We acquired the FIS Gaming Business to expand our direct distribution and service offerings in the gaming market.

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

Customer-related intangible assets	$ 143,400
Liabilities	(150)
Total identifiable net assets	143,250
Goodwill	94,250
Total purchase consideration	$ 237,500

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

Valuation of Identified Intangible Assets

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

NOTE 3—REVENUES

We are a leading worldwide provider of payment technology and software solutions delivering innovative services to our customers globally. Our technologies, services and employee expertise enable us to provide a broad range of solutions that allow our customers to accept various payment types and operate their businesses more efficiently. We distribute our services across a variety of channels to customers. The disclosures in this note are applicable for the year ended December 31, 2018.

The following table presents a disaggregation of our revenue from contracts with customers by distribution channel:

	Year Ended December 31, 2018			
	North America	Europe	Asia-Pacific	Total
	(in thousands)			
Direct:				
Relationship-led	$1,035,143	$404,083	$ 123,726	$1,562,952
Technology-enabled	1,207,278	206,847	109,426	1,523,551
	2,242,421	610,930	233,152	3,086,503
Wholesale	279,863	—	—	279,863
	$2,522,284	$610,930	$ 233,152	$3,366,366

ASC 606 requires that we determine for each customer arrangement whether revenue should be recognized at a point in time or over time. For the year ended December 31, 2018 substantially all of our revenues were recognized over time.

ASC 606 requires disclosure of the aggregate amount of the transaction price allocated to unsatisfied performance obligations; however, as permitted by ASC 606, we have elected to exclude from this disclosure any contracts with an original duration of one year or less and any variable consideration that meets specified criteria. As described above, our most significant performance obligations consist of variable consideration under a stand-ready series of distinct days of service. Such variable consideration meets the specified criteria for the disclosure exclusion; therefore, the majority of the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied is variable consideration that is not required for this disclosure. The aggregate fixed consideration portion of customer contracts with an initial contract duration greater than one year is not material.

Contract Assets and Contract Liabilities

Net contract liabilities included in accounts payable and accrued liabilities on our consolidated balance sheet were $146.9 million at December 31, 2018 and $100.6 million at January 1, 2018. Net contract liabilities included in other noncurrent liabilities on our consolidated balance sheet were $8.6 million at December 31, 2018 and $6.0 million at January 1, 2018. The increase in contract liabilities during 2018 reflects the effects of business combinations. Revenues for the year ended December 31, 2018 included $97.3 million that was in contract liabilities at January 1, 2018. Net contract assets were not material at December 31, 2018 or at January 1, 2018.

Contract Costs

At December 31, 2018, we had net capitalized costs to obtain and to fulfill contracts of $194.6 million and $13.0 million, respectively. During the year ended December 31, 2018, amortization of capitalized contract costs was $51.5 million.

NOTE 4—SETTLEMENT PROCESSING ASSETS AND OBLIGATIONS

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

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

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

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

Settlement processing assets and obligations include the components outlined below:

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

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

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As of December 31, 2018 and 2017 settlement processing assets and obligations consisted of the following:

	2018	2017
	(in thousands)	
Settlement processing assets:		
Interchange reimbursement	$154,978	$304,964
Receivable from Members	228,107	104,339
Receivable from networks	1,221,060	2,055,390
Exception items	7,636	7,867
Merchant Reserves	(11,559)	(13,268)
	$1,600,222	$2,459,292
Settlement processing liabilities:		
Interchange reimbursement	$193,235	$72,053
Liability to Members	(182,450)	(20,369)
Liability to merchants	(1,144,249)	(1,961,107)
Exception items	7,146	6,863
Merchant Reserves	(145,826)	(133,907)
Reserve for operating losses and sales allowances	(4,212)	(4,042)
	$(1,276,356)	$(2,040,509)

NOTE 5—PROPERTY AND EQUIPMENT

As of December 31, 2018 and 2017, property and equipment consisted of the following:

	Range of Depreciable Lives (Years)	2018	2017
		(in thousands)	
Land		$3,518	$2,742
Buildings	25-30	27,179	29,309
Equipment	2-20	337,589	280,774
Software	2-10	539,879	411,975
Leasehold improvements	3-15	73,298	63,154
Furniture and fixtures	3-7	45,346	24,054
		1,026,809	812,008
Less accumulated depreciation and amortization		(503,827)	(314,336)
Work-in-progress		130,560	90,676
		$653,542	$588,348

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NOTE 6—GOODWILL AND INTANGIBLE ASSETS

As of December 31, 2018 and 2017, goodwill and other intangible assets consisted of the following:

	2018	2017
	(in thousands)	
Goodwill	$6,341,355	$5,703,992
Other intangible assets:		
Customer-related intangible assets	$2,486,217	$2,078,891
Acquired technologies	896,701	722,466
Trademarks and trade names	289,588	247,688
Contract-based intangible assets	178,391	171,522
	3,850,897	3,220,567
Less accumulated amortization:		
Customer-related intangible assets	860,715	685,869
Acquired technologies	351,170	210,063
Trademarks and trade names	83,234	50,849
Contract-based intangible assets	67,160	92,079
	1,362,279	1,038,860
	$2,488,618	$2,181,707

The following table sets forth the changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016:

	North America	Europe	Asia-Pacific	Total
	(in thousands)			
Balance at May 31, 2015	$779,734	$485,921	$ 226,178	$1,491,833
Goodwill acquired	3,318,768	—	53,402	3,372,170
Effect of foreign currency translation	(3,872)	(13,737)	(15,397)	(33,006)
Measurement-period adjustments	(8,200)	(411)	7,019	(1,592)
Balance at May 31, 2016	4,086,430	471,773	271,202	4,829,405
Goodwill acquired	—	28,820	—	28,820
Effect of foreign currency translation	(1,911)	(45,265)	(2,160)	(49,336)
Measurement-period adjustments	(1,267)	(28)	—	(1,295)
Balance at December 31, 2016	4,083,252	455,300	269,042	4,807,594
Goodwill acquired	784,668	—	—	784,668
Effect of foreign currency translation	5,060	57,838	18,291	81,189
Measurement-period adjustments	23,511	—	7,030	30,541
Balance at December 31, 2017	4,896,491	513,138	294,363	5,703,992
Goodwill acquired	641,483	—	57,387	698,870
Effect of foreign currency translation	(7,463)	(28,377)	(25,243)	(61,083)
Measurement-period adjustments	(424)	—	—	(424)
Balance at December 31, 2018	$5,530,087	$484,761	$ 326,507	$6,341,355

There were no accumulated impairment losses for goodwill at any balance sheet date reflected in the table above.

Customer-related intangible assets, acquired technologies, contract-based intangible assets and trademarks and trade names acquired during the year ended December 31, 2018 had weighted-average amortization periods of 11.5 years, 6.2 years, 19.3 years and 12.5 years, respectively. Customer-related intangible assets, acquired technologies, contract-based intangible assets and trademarks and trade names acquired during the year ended December 31, 2017 had weighted-average amortization periods of 16.8 years, 8.8 years, 3 years and 15 years, respectively. Customer-related intangible assets acquired 2016 fiscal transition period had a weighted-average amortization period of 12.1 years. Customer-related intangible assets, acquired technologies and trademarks and trade names acquired during the year ended May 31, 2016 had weighted-average amortization periods of 13.9 years, 5.0 years and 7.0 years, respectively. Amortization expense of acquired intangibles was $377.7 million for the year ended December 31, 2018, $337.9 million for the year ended December 31, 2017, $194.3 million for the 2016 fiscal transition period and $113.7 million for the year ended May 31, 2016, respectively.

The estimated amortization expense of acquired intangibles as of December 31, 2018 for the next five years, calculated using the currency exchange rate at the date of acquisition, if applicable, is as follows (in thousands):

2019	$408,358
2020	378,538
2021	296,435
2022	256,054
2023	213,726

NOTE 7—OTHER ASSETS

Through certain of our subsidiaries in Europe, we were a member and shareholder of Visa Europe Limited ("Visa Europe"). On June 21, 2016, Visa acquired all of the membership interests in Visa Europe, including ours, upon which we recorded a gain of $41.2 million included in interest and other income in our consolidated statements of income for the 2016 fiscal transition period. We received up-front consideration comprised of €33.5 million ($37.7 million equivalent at June 21, 2016) in cash and Series B and C convertible preferred shares whose initial conversion rate equates to Visa common shares valued at $22.9 million as of June 21, 2016. The preferred shares were assigned a value of zero based on transfer restrictions, Visa's ability to adjust the conversion rate and the estimation uncertainty associated with those factors. Based on the outcome of potential litigation involving Visa Europe in the United Kingdom and elsewhere in Europe, the conversion rate of the preferred shares could be adjusted down such that the number of Visa common shares we ultimately receive could be as low as zero, and approximately €25.6 million ($28.8 million equivalent at June 21, 2016) of the up-front cash consideration could be refundable. On the third anniversary of the closing of the acquisition by Visa, we are contractually entitled to receive €3.1 million ($3.5 million equivalent at June 21, 2016) of deferred consideration (plus compounded interest at a rate of 4.0% per annum).

NOTE 8—LONG-TERM DEBT AND LINES OF CREDIT

As of December 31, 2018 and 2017, long-term debt consisted of the following:

	2018	2017
	(in thousands)	
Credit Facility:		
Term loans (face amounts of $4,463,643 and $3,932,677 at December 31, 2018 and 2017, respectively, less unamortized debt issuance costs of $37,400 and $37,961 at December 31, 2018 and 2017, respectively)	$4,426,243	$3,894,716
Revolving Credit Facility	704,000	765,000
Total long-term debt	5,130,243	4,659,716
	115,075	100,308

Less current portion of Credit Facility (face amounts of $124,176 and $108,979 at December 31, 2018 and 2017, respectively, less unamortized debt issuance costs of $9,101 and $8,671 at December 31, 2018 and 2017, respectively)		
Long-term debt, excluding current portion	$5,015,168	$4,559,408

Maturity requirements on long-term debt as of December 31, 2018 by year are as follows (in thousands):

Years ending December 31,	
2019	$124,176
2020	159,979
2021	195,848
2022	267,587
2023	3,945,053
2024 and thereafter	475,000
Total	$5,167,643

Credit Facility

We are party to a credit facility agreement with Bank of America, N.A., as administrative agent, and a syndicate of financial institutions as lenders and other agents (as amended from time to time, the "Credit Facility"). As of December 31, 2018, the Credit Facility provided for secured financing comprised of (i) a $1.5 billion revolving credit facility (the "Revolving Credit Facility"); (ii) a $1.5 billion term loan (the "Term A Loan"), (iii) a $1.37 billion term loan (the "Term A-2 Loan"), (iv) a $1.14 billion term loan facility (the "Term B-2 Loan") and (v) a $500 million term loan (the "Term B-4 Loan"). Substantially all of the assets of our domestic subsidiaries are pledged as collateral under the Credit Facility.

The borrowings outstanding under our Credit Facility as of December 31, 2018 reflect amounts borrowed for acquisitions and other activities we completed in 2018, including a reduction to the interest rate margins applicable to our Term A Loan, Term A-2 Loan, Term B-2 Loan and the Revolving Credit Facility, an extension of the maturity dates of the Term A Loan, Term A-2 Loan and the Revolving Credit Facility, and an increase in the total financing capacity under the Credit Facility to approximately $5.5 billion in June 2018.

In October 2018, we entered into an additional term loan under the Credit Facility in the amount of $500 million (the "Term B-4 Loan"). We used the proceeds from the Term B-4 Loan to pay down a portion of the balance outstanding under our Revolving Credit Facility.

The Credit Facility provides for an interest rate, at our election, of either LIBOR or a base rate, in each case plus a margin. As of December 31, 2018, the interest rates on the Term A Loan, the Term A-2 Loan, the Term B-2 Loan and the Term B-4 Loan were 4.02%, 4.01%, 4.27% and 4.27%, respectively, and the interest rate on the Revolving Credit Facility was 3.92%. In addition, we are required to pay a quarterly commitment fee with respect to the unused portion of the Revolving Credit Facility at an applicable rate per annum ranging from 0.20% to 0.30% depending on our leverage ratio.

The Term A Loan and the Term A-2 Loan mature, and the Revolving Credit Facility expires, on January 20, 2023. The Term B-2 Loan matures on April 22, 2023. The Term B-4 Loan matures on October 18, 2025. The Term A Loan and Term A-2 Loan principal amounts must each be repaid in quarterly installments in the amount of 0.625% of principal through June 2019, increasing to 1.25% of principal through June 2021, increasing to 1.875% of principal through June 2022 and increasing to 2.50% of principal through December 2022, with the remaining principal balance due upon maturity in January 2023. The Term B-2 Loan principal must be repaid in quarterly installments in the amount of 0.25% of principal through March 2023, with the remaining principal balance due upon maturity in April 2023. The Term B-4 Loan principal must be repaid in quarterly installments in the amount of 0.25% of principal through September 2025, with the remaining principal balance due upon maturity in October 2025.

We may issue standby letters of credit of up to $100 million in the aggregate under the Revolving Credit Facility. Outstanding letters of credit under the Revolving Credit Facility reduce the amount of borrowings available to us.

Borrowings available to us under the Revolving Credit Facility are further limited by the covenants described below under "Compliance with Covenants." The total available commitments under the Revolving Credit Facility at December 31, 2018 were $783.6 million.

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

Settlement Lines of Credit

In various markets where we do business, we have specialized lines of credit, which are restricted for use in funding settlement. The settlement lines of credit generally have variable interest rates, are subject to annual review and are denominated in local currency but may, in some cases, facilitate borrowings in multiple currencies. For certain of our lines of credit, the available credit is increased by the amount of cash we have on deposit in specific accounts with the lender. Accordingly, the amount of the outstanding line of credit may exceed the stated credit limit. As of December 31, 2018 and 2017, a total of $70.6 million and $59.3 million, respectively, of cash on deposit was used to determine the available credit.

As of December 31, 2018 and 2017, respectively, we had $700.5 million and $635.2 million outstanding under these lines of credit with additional capacity of $710.3 million as of December 31, 2018 to fund settlement. The weighted-average interest rate on these borrowings was 2.97% and 1.97% at December 31, 2018 and 2017, respectively. During the year ended December 31, 2018, the maximum and average outstanding balances under these lines of credit were $828.2 million and $398.3 million, respectively.

Compliance with Covenants

The Credit Facility Agreement contains customary affirmative and restrictive covenants, including, among others, financial covenants based on our leverage and interest coverage ratios, as defined in the agreement. As of December 31, 2018, financial covenants under the Credit Facility Agreement required a leverage ratio no greater than: (i) 5.00 to 1.00 as of the end of any fiscal quarter ending during the period from April 1, 2018 through June 30, 2019; (ii) 4.75 to 1.00 as of the end of any fiscal quarter ending during the period from July 1, 2019 through June 30, 2020; and (iii) 4.50 to 1.00 as of the end of any fiscal quarter ending thereafter. The interest coverage ratio is required to be no less than 3.25 to 1.00.

The Credit Facility Agreement includes covenants, subject in each case to exceptions and qualifications that may restrict certain payments, including, in certain circumstances, the repurchasing of our common stock and paying cash dividends in excess of our current rate of $0.01 per share per quarter. We were in compliance with all applicable covenants as of December 31, 2018.

Interest Rate Swap Agreements

We have interest rate swap agreements with financial institutions to hedge changes in cash flows attributable to interest rate risk on a portion of our variable-rate debt instruments. Net amounts to be received or paid under the swap agreements are reflected as adjustments to interest expense. Since we have designated the interest rate swap agreements as portfolio cash flow hedges, unrealized gains or losses resulting from adjusting the swaps to fair value are recorded as components of other comprehensive income. The fair values of the interest rate swaps were determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. These derivative instruments were classified within Level 2 of the valuation hierarchy.

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

Derivative Financial Instruments	Balance Sheet Location	Weighted-Average Fixed Rate of Interest at December 31, 2018	Range of Maturity Dates at December 31, 2018	Fair Values at December 31, 2018	2017
				(in thousands)	
Interest rate swaps (Notional of $750 million at December 31, 2018)	Prepaid expenses and other current assets	1.54%	February 28, 2019 - December 31, 2019	$3,200	$—
Interest rate swaps (Notional of $550 million and $1,300 million at December 31, 2018 and 2017, respectively)	Other noncurrent assets	1.65%	July 31, 2020 - March 31, 2021	$8,256	$9,202
Interest rate swaps (Notional of $950 million at December 31, 2018)	Accounts payable and accrued liabilities	2.82%	December 31, 2022	$14,601	$—

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

	Year Ended December 31, 2018	2017	Seven Months Ended December 31, 2016	Year Ended May 31, 2016
	(in thousands)			
Amount of unrealized gains (losses) recognized in other comprehensive income (loss)	$(7,553)	$4,549	$ 5,532	$(12,859)
Amount of unrealized (gains) losses reclassified out of other comprehensive income (loss) to interest expense	$(4,792)	$5,673	$ 4,222	$8,240

At December 31, 2018, the amount of gain in accumulated other comprehensive loss related to our interest rate swaps that is expected to be reclassified into interest expense during the next 12 months was approximately $5.5 million.

Interest Expense

Interest expense was $195.5 million, $174.3 million, $108.6 million and $67.9 million for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016.

NOTE 9—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of December 31, 2018 and 2017, accounts payable and accrued liabilities consisted of the following:

	2018	2017
	(in thousands)	
Customer deposits	$406,117	$397,085
Contract liabilities[1]	146,947	101,029
Compensation and benefits	117,739	102,187
Payment network fees	96,495	97,304
Trade accounts payable	76,229	47,391
Income taxes payable[2]	51,108	35,405
Commissions payable to third parties	24,998	35,855
Third-party processing fees	24,987	24,267
Unclaimed property	24,369	26,468
Current portion of accrued buyout liability[3]	14,011	20,739
Other	193,703	151,877
	$1,176,703	$1,039,607

[1] Following the adoption of ASC 606 on January 1, 2018, amounts previously reported as unearned revenue are now a component of contract liabilities.

[2] The 2017 U.S. Tax Act created a territorial tax system (with a one-time mandatory "transition" tax on previously deferred foreign earnings), effective January 1, 2018. In 2017, upon the enactment of the new tax law, we recognized an estimate for income taxes payable of $63.7 million on previously deferred foreign earnings, of which $55.7 million was included in other noncurrent liabilities on the consolidated balance sheet at December 31, 2017. As of December 31, 2018, we have no liability for the transition tax on previously deferred foreign earnings.

[3] The noncurrent portion of accrued buyout liability of $59.4 million and $64.1 million is included in other noncurrent liabilities on the consolidated balance sheets as of December 31, 2018 and 2017, respectively.

NOTE 10—INCOME TAX

The income tax provision (benefit) for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016 consisted of the following:

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
Current income tax provision (benefit):				
Federal	$(20,984)	$79,903	$22,859	$26,493
State	21,122	3,468	3,443	5,454
Foreign	79,320	67,851	42,681	56,689
	79,458	151,222	68,983	88,636
Deferred income tax provision (benefit):				

Federal	(8,760)	(266,869)	(36,447)	(18,205)
State	(1,684)	9,678	(1,842)	(3,620)
Foreign	8,474	4,582	4,967	3,884
	(1,970)	(252,609)	(33,322)	(17,941)
	$77,488	$(101,387)	$35,661	$70,695

The income tax provision allocated to noncontrolling interests was $10.6 million and $8.6 million for the years ended December 31, 2018 and 2017, $4.4 million for the 2016 fiscal transition period and $7.3 million for the year ended May 31, 2016.

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The following table presents income (loss) before income taxes for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016:

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
United States	$131,067	$29,692	$(55,279)	$59,876
Foreign	431,089	362,991	228,623	301,036
	$562,156	$392,683	$173,344	$360,912

On December 22, 2017, the United States enacted the 2017 U.S. Tax Act, which resulted in numerous changes, including a reduction in the U.S. federal tax rate from 35% to 21% effective January 1, 2018 and the transition of the U.S. federal tax system to a territorial regime. As part of this transition, the 2017 U.S. Tax Act imposed a one-time mandatory "transition" tax on foreign earnings not previously subjected to U.S. income tax.

Following the guidance in SAB 118, we made reasonable estimates of the effects of the 2017 U.S. Tax Act on our existing deferred tax balances and the one-time transition tax. For these items, which are further described below, we recognized a provisional net income tax benefit of $158.7 million, which was included as a component of income tax benefit in our consolidated statement of income for the year ended December 31, 2017.

We remeasured our U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse, which is now 21% instead of 35% and recorded a provisional income tax benefit of $222.4 million for the year ended December 31, 2017. The one-time transition tax established by the 2017 U.S. Tax Act is based on our total post-1986 foreign earnings and profits, offset by allowable foreign tax credits. The transition tax rate applied to our foreign earnings is based on the amount of those earnings held in cash and cash equivalents, as well as other assets. For the year ended December 31, 2017, we recorded a provisional income tax expense of $63.7 million for the transition tax on our previously deferred foreign earnings. During 2018, we continued to analyze other provisions of the 2017 U.S. Tax Act, including the effects on our foreign tax pools and resulting foreign tax credits, and reduced our estimated transition tax liability to $40.4 million, which resulted in an income tax benefit of $23.3 million. As of December 31, 2018, we have completed our accounting for the transition effects of the 2017 U.S. Tax Act.

Approximately $18 million of our undistributed foreign earnings are considered to be indefinitely reinvested outside the United States as of December 31, 2018. Because those earnings are considered to be indefinitely reinvested, no deferred income taxes have been provided thereon. If we were to make a distribution of any portion of those earnings in the form of dividends or otherwise, any such amounts would be subject to withholding taxes payable to various foreign jurisdictions; however, the amounts would not be subject to any additional U.S. income tax.

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Our effective tax rates for periods presented differ from the federal statutory rate for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016 as follows:

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
Federal U.S. statutory rate	21.0 %	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	2.7	1.9	0.6	0.4
Foreign income taxes (primarily U.K.)	(0.5)	(12.0)	(12.6)	(10.1)
Foreign interest income not subject to tax	(1.7)	(2.2)	(2.3)	(2.6)
Federal U.S. transition tax	(4.1)	16.2	—	—
Federal U.S. rate reduction	—	(55.6)	—	—
Other SAB 118 adjustments	(0.6)	—	—	—
Share-based compensation expense	(2.1)	(4.2)	—	—
Foreign-derived intangible income deduction	(1.6)	—	—	—
Taxes on unremitted earnings	—	—	—	(3.5)
Valuation allowance	1.4	(3.2)	—	—
Other	(0.7)	(1.7)	(0.1)	0.4
Effective tax rate	13.8 %	(25.8)%	20.6 %	19.6 %

Deferred income taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax laws and rates. Deferred income taxes as of December 31, 2018 and 2017 reflect the effect of temporary differences between the amounts of assets and liabilities for financial accounting and income tax purposes. As of December 31, 2018 and 2017, principal components of deferred tax items were as follows:

	2018	2017
	(in thousands)	
Deferred income tax assets:		
Basis difference - U.K. business	$4,890	$8,961
Domestic net operating loss carryforwards	20,096	17,228
Foreign net operating loss carryforwards	10,833	3,819
Share-based compensation expense	11,333	7,856
Accrued expenses	35,913	34,582
Other	16,906	18,502
	99,971	90,948
Less valuation allowance	(23,390)	(16,550)
	76,581	74,398
Deferred tax liabilities:		
Acquired intangibles	522,636	410,563
Property and equipment	102,654	77,481
Other	28,188	10,087
	653,478	498,131
Net deferred income tax liability	$(576,897)	$(423,733)

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The net deferred income taxes reflected on our consolidated balance sheets as of December 31, 2018 and 2017 are as follows:

	2018	2017
	(in thousands)	
Noncurrent deferred income tax asset	$8,128	$13,146
Noncurrent deferred income tax liability	(585,025)	(436,879)
Net deferred income tax liability	$(576,897)	$(423,733)

A valuation allowance is provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes to our valuation allowance during the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016 are summarized below (in thousands):

Balance at May 31, 2015	$(3,823)
Allowance for foreign income tax credit carryforward	(7,140)
Allowance for domestic net operating loss carryforwards	(4,474)
Allowance for domestic net unrealized capital loss	(1,526)
Release of allowance of domestic capital loss carryforward	1,746
Other	98
Balance at May 31, 2016	(15,119)
Allowance for domestic net operating loss carryforwards	(1,504)
Release of allowance of domestic net unrealized capital loss	12
Balance at December 31, 2016	(16,611)
Allowance for foreign net operating loss carryforwards	(6,469)
Allowance for domestic net operating loss carryforwards	(3,793)
Allowance for state credit carryforwards	(685)
Rate change on domestic net operating loss and capital loss carryforwards	3,868
Utilization of foreign income tax credit carryforward	7,140
Balance at December 31, 2017	(16,550)
Allowance for foreign net operating loss carryforwards	(7,979)
Allowance for domestic net operating loss carryforwards	1,145
Allowance for state credit carryforwards	(6)
Balance at December 31, 2018	$(23,390)

The increase in the valuation allowance related to foreign net operating loss carryforwards of $8.0 million for the year ended December 31, 2018. The increase in the valuation allowance of $10.3 million for the year ended December 31, 2017 relates primarily to carryforward assets recorded as part of the acquisition of ACTIVE Network. The increase in the valuation allowance related to domestic net operating loss carryforwards of $1.5 million and $4.5 million for the 2016 fiscal transition period and the year ended May 31, 2016, respectively, relates to acquired carryforwards from the merger with Heartland.

Foreign net operating loss carryforwards of $68.3 million and domestic net operating loss carryforwards of $38.6 million at December 31, 2018 will expire between December 31, 2026 and December 31, 2038 if not utilized.

We conduct business globally and file income tax returns in the domestic federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities around the world. We are no longer subjected to state income tax examinations for fiscal years ended on or before May 31, 2008, U.S. federal income tax examinations for fiscal ended on or before May 31, 2013 and U.K. federal income tax examinations for fiscal years ended on or before May 31, 2014.

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A reconciliation of the beginning and ending amounts of unrecognized income tax benefits, excluding penalties and interest, for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016 is as follows:

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
Balance at the beginning of the year	$31,218	$17,916	$7,803	$2,559
Additions based on income tax positions related to the current year	—	7,537	4,626	287
Additions related to acquisition	—	13,061	6,149	6,151
Additions for income tax positions of prior years	—	411	247	753
Effect of foreign currency fluctuations on income tax positions	—	27	(3)	2
Reductions for income tax positions of prior years	(10,021)	(7,285)	(906)	(123)
Settlements with income tax authorities	—	(449)	—	(1,826)
Balance at the end of the year	$21,197	$31,218	$17,916	$7,803

As of December 31, 2018, the total amount of gross unrecognized income tax benefits that, if recognized, would affect the provision for income taxes is $21.2 million.

NOTE 11—SHAREHOLDERS' EQUITY

We make repurchases of our common stock mainly through the use of open market purchases and, at times, through accelerated share repurchase programs ("ASRs"). As of December 31, 2018, we were authorized to repurchase up to $387.8 million of our common stock. On February 5, 2019, the board of directors increased its authorization to repurchase shares of our common stock to $750 million, inclusive of prior share repurchase programs authorized by the board and repurchases made thereunder.

Information about shares repurchased and retired was as follows for the periods indicated:

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands, except per share amounts)			
Number of shares repurchased and retired	1,927	376	2,518	2,152
Cost of shares repurchased, including commissions	$212,196	$34,811	$178,165	$135,954
Average cost per share	$110.11	$92.51	$70.77	$63.17

On April 25, 2016, we entered into an ASR with a financial institution to repurchase an aggregate of $50 million of our common stock. In exchange for an up-front payment of $50 million, the financial institution committed to deliver a number of shares during the ASR's purchase period, which ended on June 23, 2016. On April 26, 2016, 545,777 shares were initially delivered to us. At May 31, 2016, we accounted for the variable component of remaining shares

to be delivered under the ASR as a forward contract indexed to our common stock which met all of the applicable criteria for equity classification. On June 23, 2016, an additional 127,435 shares were delivered to us. The total number of shares delivered under this ASR was 673,212 shares at an average price of $74.27 per share. In addition to shares repurchased under the ASR during the year ended May 31, 2016, we repurchased and retired 1.5 million shares of our common stock at a cost of $85.9 million, or an average cost of $58.12 per share, including commissions, through open market repurchase plans.

NOTE 12—SHARE-BASED AWARDS AND OPTIONS

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

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

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
Share-based compensation expense	$57,826	$39,095	$ 18,707	$30,809
Income tax benefit	$13,038	$13,849	$ 6,582	$9,879

Restricted Stock

Restricted stock awards vest in equal annual installments over a three-year period and in some cases vest at the end of a three-year service period. Restricted shares cannot be sold or transferred until they have vested. The grant date fair value of restricted stock awards, which is based on the quoted market value of our common stock on the grant date, is recognized as share-based compensation expense on a straight-line basis over the vesting period.

Performance Units

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

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

During the year ended December 31, 2018, certain of our executives were granted performance units that may be earned based on achievement of an annual adjusted EPS growth target, as modified up or down by our total shareholder return performance rank relative to the Standard & Poors 500 Index over a three-year performance period.

The maximum payout is four times the target number of performance units and the minimum payout is zero. To the extent earned, these performance units convert into unrestricted shares after performance results for the three-year performance period are certified by the Compensation Committee. We recognize share-based compensation expense based on the grant-date fair value of the performance-based restricted stock units, as determined by use of a Monte Carlo model, on a straight-line basis over the performance period.

Leveraged Performance Units

During the year ended May 31, 2015, certain executives were granted performance units that we refer to as "leveraged performance units," or "LPUs." LPUs contain a market condition based on our relative stock price growth over a three-year performance period. The LPUs contain a minimum threshold performance which, if not met, would result in no payout. The LPUs

also contain a maximum award opportunity set as a fixed dollar and fixed number of shares. After the three-year performance period, which concluded in October 2017, one-third of the earned units converted to unrestricted common stock. The remaining two-thirds converted to restricted stock that will vest in equal installments on each of the first two anniversaries of the conversion date. We recognize share-based compensation expense based on the grant date fair value of the LPUs, as determined by use of a Monte Carlo model, on a straight-line basis over the requisite service period for each separately vesting portion of the LPU award.

The following table summarizes the changes in unvested restricted stock and performance awards for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016:

	Shares	Weighted-Average Grant-Date Fair Value
	(in thousands)	
Unvested at May 31, 2015	1,848	$28.97
Granted	461	57.04
Vested	(633)	27.55
Forfeited	(70)	34.69
Unvested at May 31, 2016	1,606	37.25
Granted	348	74.26
Vested	(639)	31.38
Forfeited	(52)	45.27
Unvested at December 31, 2016	1,263	49.55
Granted	899	79.79
Vested	(858)	39.26
Forfeited	(78)	59.56
Unvested at December 31, 2017	1,226	78.29
Granted	650	109.85
Vested	(722)	60.08
Forfeited	(70)	91.47
Unvested at December 31, 2018	1,084	$108.51

The total fair value of restricted stock and performance awards vested was $43.4 million and $33.7 million for the years ended December 31, 2018 and 2017, respectively, $20.0 million for the 2016 fiscal transition period and $17.4 million for the year ended May 31, 2016.

For restricted stock and performance awards, we recognized compensation expense of $53.2 million and $35.2 million for the years ended December 31, 2018 and 2017, respectively, $17.2 million for the 2016 fiscal transition period and $28.8 million for the year ended May 31, 2016. As of December 31, 2018, there was $62.7 million of unrecognized compensation expense related to unvested restricted stock and performance awards that we expect to recognize over a weighted-average period of 2.0 years. Our restricted stock and performance award plans provide for accelerated vesting under certain conditions.

Stock Options

Stock options are granted with an exercise price equal to 100% of fair market value of our common stock on the date of grant and have a term of ten years. Stock options vest in equal installments on each of the first three anniversaries of the grant date. Our stock option plans provide for accelerated vesting under certain conditions.

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The following table summarizes changes in stock option activity for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(years)	(in millions)
Outstanding at May 31, 2015	894	$25.47	5.2	$23.9
Granted	145	55.92		
Forfeited	(8)	16.10		
Exercised	(220)	22.46		9.4
Outstanding at May 31, 2016	811	31.81	5.8	36.8
Granted	73	74.66		
Forfeited	(1)	22.93		
Exercised	(124)	22.26		6.5
Outstanding at December 31, 2016	759	37.51	6.0	24.5
Granted	124	79.45		
Forfeited	—	—		
Exercised	(160)	23.50		10.1
Outstanding at December 31, 2017	723	47.79	6.4	37.9
Granted	103	114.70		
Forfeited	(22)	100.38		
Exercised	(206)	42.65		16.5
Outstanding at December 31, 2018	598	$59.16	6.2	$27.3
Options vested and exercisable at December 31, 2018	427	$44.34	5.2	$25.1

We recognized compensation expense for stock options of $2.7 million and $2.6 million during the years ended December 31, 2018 and 2017, respectively, $1.1 million during the 2016 fiscal transition period and $1.4 million during the fiscal year ended May 31, 2016. As of December 31, 2018, we had $3.3 million of unrecognized compensation expense related to unvested stock options that we expect to recognize over a weighted-average period of 1.8 years.

The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and during the year ended May 31, 2016 was $35.09, $23.68, $21.87 and $15.60, respectively. Fair value was estimated on the date of grant using the Black-Scholes valuation model with the following weighted-average assumptions:

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
Risk-free interest rate	2.60 %	1.99 %	1.05 %	1.62 %
Expected volatility	29 %	30 %	32 %	29 %
Dividend yield	0.04 %	0.06 %	0.06 %	0.10 %
Expected term (years)	5	5	5	5

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

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quarterly dividend per share. We based our assumptions on the expected term of the options on our analysis of the historical exercise patterns of the options and our assumption on the future exercise pattern of options.

NOTE 13—SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
Income taxes paid (refunded), net	$101,302	$97,002	$(3,680)	$89,684
Interest paid	$177,525	$154,200	$93,624	$58,730

NOTE 14—NONCONTROLLING INTERESTS

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

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
Net income attributable to noncontrolling interests	$32,614	$25,645	$12,752	$18,551
Foreign currency translation attributable to noncontrolling interests	(2,696)	13,807	(8,417)	471
Comprehensive income attributable to noncontrolling interests	$29,918	$39,452	$4,335	$19,022

NOTE 15—ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Foreign Currency Translation	Unrealized Gains (Losses) on Hedging Activities	Other	Accumulated Other Comprehensive Loss
	(in thousands)			
Balance at May 31, 2015	$(178,309)	$(3,874)	$(3,809)	$(185,992)
Other comprehensive loss	(56,329)	(2,881)	(848)	(60,058)
Balance at May 31, 2016	(234,638)	(6,755)	(4,657)	(246,050)
Other comprehensive income (loss)	(83,812)	6,115	1,030	(76,667)

Balance at December 31, 2016	(318,450)	(640)	(3,627)	(322,717)
Other comprehensive income (loss)	132,594	7,639	(660)	139,573
Balance at December 31, 2017	(185,856)	6,999	(4,287)	(183,144)
Cumulative effect of adoption of new accounting standards	(1,843)	—	—	(1,843)
Other comprehensive income (loss)	(116,575)	(9,373)	760	(125,188)
Balance at December 31, 2018	$(304,274)	$ (2,374)	$(3,527)	$ (310,175)

NOTE 16—SEGMENT INFORMATION

Information About Profit and Assets

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

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

	Year Ended December 31,		Seven Months Ended December 31,	Year Ended May 31,
	2018	2017	2016	2016
	(in thousands)			
Revenues [1][2]:				
North America	$2,522,284	$2,929,522	$1,650,616	$2,052,623
Europe	610,930	767,524	403,823	631,900
Asia-Pacific	233,152	278,117	148,457	213,627
Consolidated revenues	$3,366,366	$3,975,163	$2,202,896	$2,898,150
Operating income (loss) [2]:				
North America	$570,630	$457,009	$233,850	$307,626
Europe	318,392	272,769	145,767	244,837
Asia-Pacific	93,402	81,273	37,530	50,743
Corporate[2]	(245,369)	(252,183)	(179,196)	(178,262)
Consolidated operating income	$737,055	$558,868	$237,951	$424,944
Depreciation and amortization [2]:				
North America	$444,182	$379,953	$208,198	$128,618
Europe	46,007	46,928	26,178	40,194
Asia-Pacific	24,935	16,466	10,385	13,935
Corporate	7,689	7,804	2,810	5,134
Consolidated depreciation and amortization	$522,813	$451,151	$247,571	$187,881

[1] As more fully described in "Note 1—Basis of Presentation and Summary of Significant Accounting Policies" and "Note 3—Revenues" we adopted a new revenue accounting standard on January 1, 2018 that results in revenue being presented net of certain fees that we pay to third parties, including payment networks. This change in presentation affected our reported revenues and operating expenses during the year ended December 31, 2018 by the same amount and had no effect on operating income.

(2) Revenues, operating income and depreciation and amortization reflect the effect of acquired businesses from the respective dates of acquisition. For further discussion, see "Note 2—Acquisitions."

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(3) During the years ended December 31, 2018 and 2017, 2016 fiscal transition period and the year ended May 31, 2016, operating loss for Corporate included acquisition and integration expenses of $56.1 million, $94.6 million, $91.6 million, and $51.3 million, respectively.

Enterprise-Wide Information

As a percentage of our total consolidated revenues, revenues from external customers in the United States and the United Kingdom were 67% and 9%, respectively, for the year ended December 31, 2018, 66% and 11%, respectively, for the year ended December 31, 2017 and 67% and 10%, respectively, for the 2016 transition period. Revenues from external customers in the United States, the United Kingdom, and Canada were 61%, 10% and 10%, respectively, for the year ended May 31, 2016. Revenues from external customers are attributed to individual countries based on the location of the customer arrangements. Our results of operations and our financial condition are not significantly reliant upon any single customer.

Long-lived assets, excluding goodwill and other intangible assets, by location as of December 31, 2018 and 2017 were as follows:

	2018	2017
	(in thousands)	
United States	$516,449	$451,436
Foreign countries	137,093	136,912
	$653,542	$588,348

NOTE 17—COMMITMENTS AND CONTINGENCIES

Leases and Purchase Obligations

We conduct a major part of our operations using leased facilities and equipment. Many of our operating leases include escalating rental payments, renewal options and purchase options. Certain of the agreements provide that we pay the cost of property taxes, insurance and maintenance. Rent expense on all operating leases for the years ended December 31, 2018 and 2017, the 2016 fiscal transition period and the year ended May 31, 2016 was $47.1 million, $44.7 million, $19.2 million and $19.7 million, respectively. We also have contractual obligations related to service arrangements with suppliers for fixed or minimum amounts.

In May 2017, we sold our operating facility in Jeffersonville, Indiana for $37.5 million and simultaneously leased the property back for an initial term of 20 years, followed by four optional renewal terms of 5 years. The arrangement met the criteria to be treated as a sale for accounting purposes, and as a result, we derecognized the associated property. There was no resulting gain or loss on the sale because the proceeds received were equal to the carrying amount of the property. We are accounting for the lease as an operating lease.

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Future minimum payments at December 31, 2018 for noncancelable operating leases and purchase obligations were as follows:

	Operating Leases	Purchase Obligations
	(in thousands)	
Years ending December 31:		
2019	$50,095	$ 88,022
2020	47,700	69,878
2021	40,035	62,234
2022	37,055	25,420
2023	33,298	22,909
Thereafter	225,225	33,538
Total future minimum payments[1]	$433,408	$ 302,001

[1] Future minimum lease payments include approximately $70 million for operating lease agreements not commenced at December 31, 2018.

Legal

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

Operating Taxes

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

BIN/ICA Agreements

We have entered into sponsorship or depository and processing agreements with certain banks. These agreements allow us to use the banks' identification numbers, referred to as Bank Identification Number ("BIN") for Visa transactions and an Interbank Card Association ("ICA") number for Mastercard transactions, to clear credit card transactions through Visa and Mastercard. Certain of these agreements contain financial covenants, and we were in compliance with all such covenants as of December 31, 2018.

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NOTE 18—COMPARATIVE DATA FOR THE YEAR ENDED DECEMBER 31, 2016 AND THE SEVEN MONTHS ENDED DECEMBER 31, 2015 (UNAUDITED)

The condensed consolidated statement of income for the year ended December 31, 2016 and the seven months ended December 31, 2015 is as follows (in thousands, except per share data):

	Year Ended December 31, 2016	Seven Months Ended December 31, 2015
Revenues	$3,370,976	$1,730,070
Operating expenses:		
Cost of service	1,603,532	638,700
Selling, general and administrative	1,411,096	784,823
	3,014,628	1,423,523
Operating income	356,348	306,547
Interest and other income	46,780	2,886
Interest and other expense	(146,156)	(32,149)
	(99,376)	(29,263)
Income before income taxes	256,972	277,284
Provision for income taxes	(36,267)	(70,089)
Net income	220,705	207,195
Less: Net income attributable to noncontrolling interests	(18,952)	(12,351)
Net income attributable to Global Payments	$201,753	$194,844
Earnings per share attributable to Global Payments:		
Basic earnings per share	$1.38	$1.50
Diluted earnings per share	$1.37	$1.49

NOTE 19—QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly results for the years ended December 31, 2018 and 2017 are as follows (in thousands, except per share data):

	Quarter Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Year Ended December 31, 2018				
Revenues	$794,977	$833,164	$857,670	$880,555
Operating income	156,170	190,737	223,162	166,986
Net income	97,586	117,729	186,029	83,323
Net income attributable to Global Payments	91,399	109,069	176,370	75,215
Basic earnings per share attributable to Global Payments	0.57	0.69	1.12	0.48
Diluted earnings per share attributable to Global Payments	0.57	0.68	1.11	0.47

	Quarter Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Year Ended December 31, 2017				
Revenues	$919,762	$962,240	$1,038,907	$1,054,253
Operating income	104,970	131,852	172,471	149,575
Net income	52,959	72,443	118,362	250,305
Net income attributable to Global Payments	48,813	66,909	110,740	241,962
Basic earnings per share attributable to Global Payments	0.32	0.44	0.72	1.52
Diluted earnings per share attributable to Global Payments	0.32	0.44	0.71	1.51

As more fully described in "Note 1—Basis of Presentation and Summary of Significant Accounting Policies" and "Note 3—Revenues" we adopted a new revenue accounting standard on January 1, 2018 that results in revenue being presented net of certain fees that we pay to third parties, including payment networks. This change in presentation affected our reported revenues and operating expenses during each of the quarterly periods in the year ended December 31, 2018 by the same amount and had no effect on operating income.

The quarterly financial data in the table above reflect the effects of acquisitions and borrowings to fund certain of those acquisitions. Notably, we acquired ACTIVE Network during the quarter ended September 30, 2017, AdvancedMD during the quarter ended September 30, 2018 and SICOM during the quarter ended December 31, 2018. Additionally, our consolidated results reflected incremental expenses associated with the acquisition and integration of acquired businesses. See "Note 2—Acquisitions" for further discussion of our acquisitions.

Acquisition and integration expenses were $18.3 million, $8.1 million, $8.2 million and $21.7 million for the quarters ended March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018, respectively. Acquisition and integration expenses were $26.1 million, $21.9 million, $21.5 million and $25.1 million for the quarters ended March 31, 2017, June 30, 2017, September 30, 2017 and December 31, 2017, respectively.

Results for the quarter ended December 31, 2017 reflect the effects of a net income tax benefit of $158.7 million in connection with the 2017 U.S. Tax Act, which was enacted on December 22, 2017. Results for the quarter ended September 30, 2018 reflect the effects of a net income tax benefit of $23.3 million in connection with adjustments made to accounting estimates associated with the 2017 U.S. Tax Act. See "Note 10—Income Tax" for further discussion

of the recently enacted U.S. tax legislation.

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GLOBAL PAYMENTS INC.
SCHEDULE II

Valuation & Qualifying Accounts
(in thousands)

(a) Description	(b) Balance at Beginning of Period	(c) Additions: Charged to Costs and Expenses	(d) Deductions: Uncollectible Accounts Write-Offs (Recoveries)	(e) Balance at End of Period
Allowance for doubtful accounts				
May 31, 2016	$ 468	$ 515	$ 630	$ 353
December 31, 2016[(1)]	353	4,283	3,544	1,092
December 31, 2017	1,092	6,113	5,378	1,827
December 31, 2018	$ 1,827	$ 10,430	$ 9,093	$ 3,164
Reserve for operating losses-merchant card processing [(2)]				
May 31, 2016	$ 1,286	$ 3,729	$ 2,555	$ 2,460
December 31, 2016[(1)]	2,460	4,629	4,810	2,279
December 31, 2017	2,279	14,893	13,712	3,460
December 31, 2018	$ 3,460	$ 16,068	$ 16,740	$ 2,788
Reserve for sales allowances-merchant card processing [(2)]				
May 31, 2016	$ 4,929	$ 3,571	$ 7,450	$ 1,050
December 31, 2016[(1)]	1,050	2,637	3,027	660
December 31, 2017	660	3,874	3,954	580
December 31, 2018	$ 580	$ 6,244	$ 5,400	$ 1,424
Reserve for operating losses-check guarantee processing				
May 31, 2016	$ 2,684	$ 22,827	$ 20,643	$ 4,868
December 31, 2016[(1)]	4,868	15,204	14,286	5,786
December 31, 2017	5,786	28,064	28,112	5,738
December 31, 2018	$ 5,738	$ 19,314	$ 19,987	$ 5,065
Deferred income tax asset valuation allowance				
May 31, 2016	$ 3,823	$ 11,296	$ —	$ 15,119
December 31, 2016[(1)]	15,119	1,492	—	16,611
December 31, 2017	16,611	7,079	7,140	16,550
December 31, 2018	$ 16,550	$ 6,840	$ —	$ 23,390

(1) Additions and deductions in columns (c) and (d), respectively, are for the seven months ended December 31, 2016.

(2) Included in settlement processing obligations.

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

None.

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2018, management carried out, under the supervision and with the participation of our principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2018, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management team is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the Internal Control — Integrated Framework (2013).

We completed acquisitions of AdvancedMD and SICOM in the third and fourth quarters of 2018, respectively. As permitted by the SEC rules and regulations, management's assessment did not include the internal control of the acquired operations of these acquired businesses which are included in our consolidated financial statements as of December 31, 2018 and for the periods from the acquisition dates through December 31, 2018. In accordance with our integration efforts, we plan to incorporate the operations of the acquired businesses into our internal control over financial reporting program within the time period provided by applicable SEC rules and regulations. The assets, excluding goodwill, of these acquired businesses constituted approximately 5% of our total consolidated assets as of December 31, 2018. These acquired businesses comprised less than 2% of our total consolidated revenues and did not contribute to our consolidated operating income for the year ended December 31, 2018.

Based on the results of its evaluation, which excluded assessments of the internal control of the acquired operations of AdvancedMD and SICOM, management believes that as of December 31, 2018, our internal control over financial reporting is effective based on those criteria.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management

override. Due to such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, such risk.

Attestation Report of Public Accounting Firm

Deloitte & Touche LLP has issued an attestation report on our internal control over financial reporting, which is included herein as the Report of Independent Registered Public Accounting Firm under Item 8 - Financial Statements and Supplementary Data for the year ended December 31, 2018.

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Changes in Internal Control over Financial Reporting

On September 1, 2017, we completed our acquisition of ACTIVE Network, which we have since been integrating into our North America segment. As part of our integration activities, we have completed the incorporation of ACTIVE Network's operations into our internal control over financial reporting program.

In the fourth quarter of 2018, we completed our acquisition of SICOM, which is being integrated into our North America segment. In accordance with our integration efforts, we plan to incorporate the operations of SICOM into our internal control over financial reporting program within the time period provided by the applicable SEC rules and regulations.

In the fourth quarter of 2018, we also added internal controls over disclosure related to the expected accounting and reporting effects of the new lease accounting standard, which is effective for us on January 1, 2019. We also implemented a new technology solution to assist with the necessary calculations to support the accounting and disclosure requirements of the new lease accounting standard.

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PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We incorporate by reference in this Item 10 information about our directors, executive officers and our corporate governance contained under the headings "Proposal 1: Election of Directors" and "Biographical Information About Our Executive Officers" and information about compliance with Section 16(a) of the Securities and Exchange Act of 1934 by our directors and executive officers under the heading "Additional Information-Section 16(a) Beneficial Ownership Reporting Compliance" from our proxy statement to be delivered in connection with our 2019 Annual Meeting of Shareholders to be held on April 25, 2019 ("2019 Proxy Statement").

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

ITEM 11 - EXECUTIVE COMPENSATION

We incorporate by reference in this Item 11 the information relating to executive and director compensation and the report of the Compensation Committee contained under the headings "Compensation Discussion and Analysis" and "Board and Corporate Governance-Director Compensation" from our 2019 Proxy Statement.

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

We incorporate by reference in this Item 12 the information relating to ownership of our common stock by certain persons contained under the headings "Common Stock Ownership-Common Stock Ownership by Management" and "Common Stock Ownership-Common Stock Ownership by Non-Management Shareholders" from our 2019 Proxy Statement.

The following table provides certain information as of December 31, 2018 concerning the shares of our common stock that may be issued under existing equity compensation plans. For more information on these plans, see "Note 12—Share-Based Awards and Options" in the notes to the accompanying consolidated financial statements.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	597,669	$ 59.16	12,883,324
Equity compensation plans not approved by security holders	—	—	—
Total	597,669	$ 59.16	12,883,324

The number of securities remaining available for future issuance under equity compensation plans reflected in column (c) above includes 10,610,164 shares authorized for issuance under our 2011 Amended and Restated Incentive Plan, all of which are available for issuance pursuant to grants of full-value stock awards, 2,173,140 shares authorized under our 2000 Employee Stock Purchase Plan, 33,684 shares authorized under our Amended and Restated 2005 Incentive Plan and 66,336 shares authorized under our 2000 Non-Employee Director Stock Option Plan. We do not intend to issue shares under either the Amended and Restated 2005 Incentive Plan or the 2000 Non-Employee Director Stock Option Plan.

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

We incorporate by reference in this Item 13 the information regarding certain relationships and related transactions between us and our affiliates and the independence of our directors contained under the headings "Additional Information--Relationships and Related Party Transactions" and "Board and Corporate Governance-Board Independence" from our 2019 Proxy Statement.

ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

We incorporate by reference in this Item 14 the information regarding principal accounting fees and services contained under the heading "Proposal Three: Ratification of Reappointment of Auditors" from our 2019 Proxy Statement.

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PART IV

ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES:

The following documents are filed as part of this Annual Report on Form 10-K:

(1) Consolidated Financial Statements

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

	Page Number
Reports of Independent Registered Public Accounting Firm	51
Consolidated Statements of Income for the years ended December 31, 2018 and 2017, the seven months ended December 31, 2016 and the year ended May 31, 2016	54
Consolidated Statements of Comprehensive Income for the years ended December 31, 2018 and 2017, the seven months ended December 31, 2016 and the year ended May 31, 2016	55
Consolidated Balance Sheets as of December 31, 2018 and 2017	56
Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017, the seven months ended December 31, 2016 and the year ended May 31, 2016	57
Consolidated Statements of Changes in Equity for the years ended December 31, 2018 and 2017, the seven months ended December 31, 2016 and the year ended May 31, 2016	58
Notes to Consolidated Financial Statements	60

(2) Financial Statement Schedules

	Page Number
Schedule II, Valuation and Qualifying Accounts	98

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

(3) Exhibits

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

Exhibit No.	Description
2.1++	Agreement and Plan of Merger, dated as of December 15, 2015, by and among Global Payments Inc., Data Merger Sub One, Inc., Data Merger Sub Two, LLC and Heartland Payment Systems, Inc., incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed December 17, 2015.
2.2++	Agreement and Plan of Merger, dated as of January 23, 2014, by and among the Company, Payment Processing, Inc. and, solely for the limited purposes set forth therein, certain additional parties thereto, incorporated by reference to Exhibit 2.1 to the Company’s Quarterly Report on Form 10-Q filed April 3, 2014.
2.3++	Stock Purchase and Merger Agreement, dated as of August 2, 2017, by and among Athlaction Topco, LLC, the Vista Blocker Sellers (as defined therein), Vista Equity Partners Management, LLC, as Sellers’ Representative, Global Payments Inc., Athens Merger Sub, LLC and the Vista AIVs and Vista GPs (as defined therein and solely for the limited purposes set forth therein), incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on August 8, 2017.
2.4++	

	Amendment No. 1 to the Stock Purchase and Merger Agreement, dated as of August 31, 2017, by and among Global Payments Inc., Athlaction Topco, LLC, Vista Equity Partners Management, LLC, as Sellers' Representative, and VEP Global Aggregator, LLC, incorporated by reference to Exhibit 2.2. to the Company's Current Report on Form 8-K filed on September 6, 2017.
3.1	Second Amended and Restated Articles of Incorporation of the Company, incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed July 25, 2013.
3.2	Eighth Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 4, 2017.

4.1	Stockholders Agreement, dated August 31, 2017, by an among the Company and the stockholders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 6, 2017.
10.1	First Amendment to the Second Amended and Restated Credit Agreement, First Amendment to the Second Amended and Restated Term Loan Agreement, First Amendment to the Company Guaranties and First Amendment to the Subsidiary Guaranties, dated as of February 26, 2016, by and among the Company and Global Payments Direct, Inc., as borrowers, Bank of America, N.A., as Administrative Agent, and certain other lenders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 1, 2016.
10.2	Second Amendment to Second Amended and Restated Credit Agreement, dated as of October 31, 2016, by and among the Company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as Administrative Agent, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on January 9, 2017.
10.3	Third Amendment dated March 30, 2017, to Second Amended and Restated Credit Agreement, dated as of July 31, 2015 among the Company, the other borrowers party thereto, the Guarantors party thereto, the Lenders party thereto, and Bank of America, N.A., as Administrative Agent, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2017.
10.4	Fourth Amendment, dated May 2, 2017, to Second Amended and Restated Credit Agreement, dated as of July 31, 2015 among the Company, the other borrowers party thereto, the Guarantors party thereto, the Lenders party thereto, and Bank of America, N.A., as Administrative Agent, incorporated by referenced to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 3, 2017.
10.5	First Refinancing Facility Amendment to Second Amended and Restated Credit Agreement, dated March 20, 2018, by and among the Company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A. as administrative agent, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 3, 2018.
10.6	Fifth Amendment to Second Amended and Restated Credit Agreement and First Amendment to Security Agreement, dated June 19, 2018, by and among the Company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 2, 2018.
10.7*	Sixth Amendment to Second Amended and Restated Credit Agreement, dated October 18, 2018, by and among the Company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent
10.8	First Amended and Restated Marketing Alliance Agreement with HSBC Bank plc, dated June 12, 2009, incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K filed July 28, 2009, File No. 001-16111.
10.9+	Amended and Restated 2000 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K filed July 28, 2010.
10.10+	Third Amended and Restated 2000 Non-Employee Director Stock Option Plan, dated June 1, 2004, incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed July 30, 2007, File No. 001-16111.
10.11+	Amendment to the Third Amended and Restated 2000 Non-Employee Director Stock Option Plan, dated March 28, 2007, incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed July 30, 2007, File No. 001-16111.
10.12+	Third Amended and Restated 2005 Incentive Plan, dated December 31, 2008, incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed April 6, 2009, File No. 001-16111.
10.13+	Form of Non-Statutory Stock Option Award pursuant to the Amended and Restated 2005 Incentive Plan, incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed January 8, 2007, File No. 001-16111.
10.14+	

	Non-Qualified Deferred Compensation Plan, incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed September 16, 2010.
10.15+	Amended and Restated 2011 Incentive Plan, incorporated by reference to Exhibit 10.11 to the Company’s Annual Report on Form 10-KT filed on February 28, 2017.
10.16+	Form of Restricted Stock Award pursuant to the 2011 Amended and Restated Incentive Plan for Executive Officers (calendar 2018), incorporated by reference to Exhibit 10.2 to the Company’s Form 10-Q filed on May 3, 2018.
10.17+	Form of Performance Unit Award Agreement pursuant to the 2011 Amended and Restated Incentive Plan for Executive Officers (calendar 2018), incorporated by reference to Exhibit 10.3 to the Company’s Form 10-Q filed on August 2, 2018.
10.18+	Form of Stock Option Award pursuant to the 2011 Amended and Restated Incentive Plan for Executive Officers (calendar 2018) incorporated by reference to Exhibit 10.4 to the Company’s Form 10-Q filed on May 3, 2018.
10.19+	Form of Restricted Stock Award pursuant to the 2011 Amended and Restated Incentive Plan for Executive Officers (calendar 2017), incorporated by reference to Exhibit 10.1 to the Company’s Form 10-Q filed on May 4, 2017.

10.20+	Form of Performance Unit Award Agreement pursuant to the 2011 Amended and Restated Incentive Plan for Executive Officers (calendar 2017) incorporated by reference to Exhibit 10.2 to the Company’s Form 10-Q filed on May 4, 2017.
10.21+	Form of Stock Option Award pursuant to the 2011 Amended and Restated Incentive Plan for Executive Officers (calendar 2017) incorporated by reference to Exhibit 10.3 to the Company’s Form 10-Q filed on May 4, 2017.
10.22+	Form of Restricted Stock Award pursuant to the 2011 Incentive Plan (2016 fiscal year), incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed April 8, 2015.
10.23+	Form of Restricted Stock Award pursuant to the 2011 Incentive Plan (2015 fiscal year), incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed April 8, 2015.
10.24+	Form of Stock Option Award pursuant to the 2011 Incentive Plan (2015 fiscal year), incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q filed April 8, 2015.
10.25+	Form of Performance Unit Award Certificate pursuant to the 2011 Incentive Plan (2015 fiscal year), incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q filed April 8, 2015.
10.26+	Form of Performance Unit Award Certificate (Leveraged Performance Units) pursuant to the 2011 Incentive Plan (2015 fiscal year), incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q filed April 8, 2015.
10.27+	Fourth Amended and Restated Non-Employee Director Compensation Plan, dated September 28, 2016 (sub-plan to the Global Payments Inc. 2011 Incentive Plan, dated September 27, 2011), incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed January 9, 2017.
10.28+	Annual Performance Plan, adopted August 29, 2012 (sub-plan to the Global Payments Inc. 2011 Incentive Plan, dated September 27, 2011), incorporated by reference to Exhibit 10.52 to the Company’s Annual Report on Form 10-K filed July 25, 2013.
10.29+	Employment Agreement by and between the Company and Jeffrey S. Sloan, dated as of March 30, 2010, incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed April 1, 2010.
10.30+	Amendment to Employment Agreement by and between the Company and Jeffrey S. Sloan, dated as of October 1, 2013, incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K filed October 7, 2013.
10.31+	Second Amendment to Employment Agreement by and between the Company and Jeffrey S. Sloan, dated as of August 29, 2014, incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed October 2, 2014.
10.32+	Third Amendment to Employment Agreement between Jeffrey S. Sloan and the Company, dated August 27, 2018, incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q filed on October 30, 2018.
10.33+	Employment Agreement by and between the Company and David E. Mangum, dated as of March 1, 2010, incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed March 3, 2010.
10.34+	Amendment to Employment Agreement by and between the Company and David E. Mangum, dated as of August 29, 2014, incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q filed October 2, 2014.
10.35+	Employment Agreement by and between the Company and Cameron M. Bready, dated as of May 21, 2014, incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed May 23, 2014.
10.36+	Amendment to Employment Agreement between Cameron M. Bready and the Company, dated August 27, 2018, incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report On Form 10-Q filed on October 30, 2018.
10.37+	Employment Agreement by and between the Company and Guido F. Sacchi, dated as of December 1, 2013, incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q filed January 8, 2014.
10.38+	Amendment to Employment Agreement between Guido F. Sacchi and the Company, dated August 27, 2018, incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q filed on October

	30, 2018.
10.39+	Employment Agreement by and between the Company and David L. Green, dated as of December 1, 2013, incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q filed January 8, 2014.
10.40+	Amendment to Employment Agreement between David L. Green and the Company, dated August 27, 2018, incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q filed on October 30, 2018.
21.1*	List of Subsidiaries.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Power of Attorney.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.

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31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1*	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
101.1*	The following financial information from the Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Changes in Equity; and (vi) the Notes to Consolidated Financial Statements.

* Filed herewith.
+ Management contract or compensatory plan or arrangement.
++ Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and Global Payments Inc. agrees to furnish supplementally to the SEC a copy of any omitted schedule and/or exhibit upon request.

(b) Exhibits

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(c) Financial Statement Schedules

See Item 15(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Global Payments Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 21, 2019.

GLOBAL PAYMENTS INC.

By: /s/ Jeffrey S. Sloan
Jeffrey S. Sloan
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Cameron M. Bready
Cameron M. Bready
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ David M. Sheffield
David M. Sheffield
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Global Payments Inc. and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William I Jacobs * William I Jacobs	Chairman of the Board	February 21, 2019
/s/ Robert H.B. Baldwin, Jr.* Robert H.B. Baldwin, Jr.	Director	February 21, 2019
/s/ John G. Bruno* John G. Bruno	Director	February 21, 2019
/s/ Mitchell L. Hollin* Mitchell L. Hollin	Director	February 21, 2019
/s/ Ruth Ann Marshall * Ruth Ann Marshall	Director	February 21, 2019
/s/ John M. Partridge * John M. Partridge	Director	February 21, 2019
/s/ William B. Plummer * William B. Plummer	Director	February 21, 2019
/s/ Alan M. Silberstein * Alan M. Silberstein	Director	February 21, 2019

/s/ Jeffrey S. Sloan Jeffrey S. Sloan	Director	February 21, 2019
*By: /s/ Jeffrey S. Sloan Jeffrey S. Sloan	Attorney-in-fact	February 21, 2019

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