INFINITY PROPERTY & CASUALTY CORP
Form 10-Q
November 06, 2009
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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 September 30, 2009

OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______

Commission File No. 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated under	
the Laws of Ohio	**03-0483872**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

3700 Colonnade Parkway, Birmingham, Alabama 35243

(Address of principal executive offices and zip code)

(205) 870-4000

(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 and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

As of October 30, 2009, there were 13,602,267 shares of the registrant s common stock outstanding.

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PART I

FINANCIAL INFORMATION

ITEM 1

Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(unaudited)

	Three months ended September 30			Nine months ended September 30		
	2009	2008	% Change	2009	2008	% Change
Revenues:						
Earned premium	$ 210,337	$ 231,094	(9.0)%	$ 638,734	$ 699,521	(8.7)%
Net investment income	12,107	14,098	(14.1)%	37,904	44,245	(14.3)%
Realized losses on investments*	(12,113)	(11,623)	4.2%	(18,070)	(14,788)	22.2%
Other income	25	233	(89.3)%	96	1,880	(94.9)%
Total revenues	210,357	233,802	(10.0)%	658,665	730,858	(9.9)%
Costs and Expenses:						
Losses and loss adjustment expenses	141,057	164,909	(14.5)%	443,151	500,281	(11.4)%
Commissions and other underwriting expenses	47,127	51,091	(7.8)%	139,778	160,600	(13.0)%
Interest expense	2,769	2,768	0.0%	8,306	8,303	0.0%
Corporate general and administrative expenses	1,590	1,746	(8.9)%	5,170	5,538	(6.6)%
Restructuring charges		72	(100.0)%	2	480	(99.6)%
Other expenses	404	1,196	(66.2)%	1,818	3,951	(54.0)%
Total costs and expenses	192,946	221,782	(13.0)%	598,225	679,153	(11.9)%
Earnings before income taxes	17,411	12,020	44.9%	60,440	51,705	16.9%
Provision for income taxes	9,187	7,651	20.1%	24,508	21,191	15.7%
Net Earnings	$ 8,224	$ 4,369	88.2%	$ 35,932	$ 30,514	17.8%
Earnings per Common Share:						
Basic	$ 0.61	$ 0.29	110.3%	$ 2.62	$ 1.93	35.8%
Diluted	0.60	0.28	114.3%	2.58	1.90	35.8%
Average number of Common Shares:						

Basic	13,534	15,260	(11.3)%	13,713	15,838	(13.4)%
Diluted	13,753	15,499	(11.3)%	13,921	16,066	(13.4)%
Cash dividends per Common Share	$ 0.12	$ 0.11	9.1%	$ 0.36	$ 0.33	9.1%
* Realized (losses) gains before impairment losses	$ (1,077)	$ 2,174	(149.5)%	$ 1,311	$ 6,706	(80.5)%
Total other-than-temporary impairment (OTTI) losses	(250)	(13,797)	(98.2)%	(11,832)	(21,494)	(45.0)%
Non-credit portion in other comprehensive income			0.0%	3,783		0.0%
OTTI losses reclassed from other comprehensive income	(10,786)		0.0%	(11,332)		0.0%
Net impairment losses recognized in earnings	(11,037)	(13,797)	(20,0)%	(19,381)	(21,494)	(9.8)%
Total realized losses on investments	$ (12,113)	$ (11,623)	4.2%	$ (18,070)	$ (14,788)	22.2%

See Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2009 (unaudited)		December 31, 2008	
Assets				
Investments:				
Fixed maturities - at fair value (amortized cost $1,106,733 and $1,024,121)	$	1,134,811	$	1,032,237
Equity securities - at fair value (amortized cost $33,244 and $31,157)		39,436		31,157
Total investments		1,174,248		1,063,394
Cash and cash equivalents		104,215		109,274
Accrued investment income		10,166		11,028
Agents balances and premium receivable, net of allowances for doubtful accounts of $10,391 and $11,652		309,700		300,751
Property, plant and equipment, net of accumulated depreciation of $39,490 and $49,989		29,675		33,342
Prepaid reinsurance premium		1,927		1,661
Recoverables from reinsurers (includes $532 and $2,898 on paid losses and loss adjustment expenses)		18,439		23,413
Deferred policy acquisition costs		71,174		70,101
Current and deferred income taxes		13,155		20,920
Receivable for securities sold		2,336		
Prepaid expenses, deferred charges and other assets		8,396		14,779
Goodwill		75,275		75,275
Total assets	$	1,818,706	$	1,723,938
Liabilities and shareholders equity				
Liabilities:				
Unpaid losses and loss adjustment expenses	$	532,025	$	544,756
Unearned premium		388,020		380,425
Payable to reinsurers				954
Long-term debt (fair value $194,400 and $179,063)		199,623		199,567
Commissions payable		23,549		22,568
Payable for securities purchased		36,873		293
Accounts payable, accrued expenses and other liabilities		45,959		50,042
Total liabilities		1,226,050		1,198,607
Commitments and contingencies (See Note 11)				
Shareholders equity:				
Common stock, no par value 50,000,000 shares authorized 21,079,354 and 21,041,444 shares issued		21,056		20,999
Additional paid-in capital		343,732		341,889
Retained earnings		508,132		439,051
Accumulated other comprehensive income, net of tax		22,914		5,987
Treasury stock, at cost (7,474,062 and 6,895,262 shares)		(303,178)		(282,594)

Total shareholders equity		592,656		525,331
Total liabilities and shareholders equity	$	1,818,706	$	1,723,938

See Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Treasury Stock	Total
Balance at December 31, 2007	$ 20,942	$ 340,195	$ 426,638	$ 8,353	$ (194,904)	$ 601,224
Net earnings	$	$	$ 30,514	$	$	$ 30,514
Net change in post-retirement benefit liability, net of tax				(48)		(48)
Change in unrealized gain on investments, net of tax				(18,710)		(18,710)
Comprehensive income						$ 11,756
Dividends paid to common shareholders			(5,242)			(5,242)
Employee stock purchases, including tax benefit	6	198				204
Exercise of stock options, including tax benefit	17	429				446
Share-based compensation expense	34	1,708				1,742
Acquisition of treasury stock					(53,640)	(53,640)
Accelerated share repurchase plan settlement payment		(768)				(768)
Balance at September 30, 2008	$ 20,999	$ 341,762	$ 451,910	$ (10,405)	$ (248,544)	$ 555,722
Net earnings	$	$	$ (11,257)	$	$	$ (11,257)
Net change in post-retirement benefit liability, net of tax				242		242
Change in unrealized gain on investments, net of tax				16,150		16,150
Comprehensive income						$ 5,135
Dividends paid to common shareholders			(1,568)			(1,568)
Employee stock purchases, including tax benefit	1	50				52
Exercise of stock options, including tax benefit	3	104				107
Share-based compensation expense	(4)	(27)				(31)
Acquisition of treasury stock					(34,051)	(34,051)
Other			(34)			(34)
Balance at December 31, 2008	$ 20,999	$ 341,889	$ 439,051	$ 5,987	$ (282,594)	$ 525,331
Net earnings	$	$	$ 35,932	$	$	$ 35,932
Net change in post-retirement benefit liability, net of tax				(73)		(73)
Change in unrealized gain on investments, net of tax				29,834		29,834
Non-credit component of impairment losses on fixed maturities, net of tax				11,936		11,936

Comprehensive income						$ 77,629
Reclassification of non-credit component of previously recognized impairment losses on fixed maturities			38,107	(38,107)		
Tax benefit on reclassification				13,338		13,338
Dividends paid to common shareholders			(4,958)			(4,958)
Employee stock purchases, including tax benefit	4	160				164
Exercise of stock options, including tax benefit	24	601				625
Share-based compensation expense	29	1,082				1,111
Acquisition of treasury stock					(20,583)	(20,583)
Balance at September 30, 2009	$ 21,056	$ 343,732	$ 508,132	$ 22,914	$ (303,178)	$ 592,656

See Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three months ended September 30,	
	2009	2008
Operating activities:		
Net earnings	$ 8,224	$ 4,369
Adjustments:		
Depreciation and amortization	2,706	3,001
Realized losses on investing activities	12,113	11,623
Loss on disposal of fixed assets	2	455
Share-based compensation expense	321	448
Decrease in accrued investment income	156	1,836
(Increase) decrease in agents balances and premium receivable	(3,091)	8,605
Decrease in reinsurance receivables	1,514	2,004
Decrease in deferred policy acquisition costs	45	2,119
Decrease in other assets	1,218	5,237
Decrease in insurance claims and reserves	(913)	(14,262)
Decrease in payable to reinsurers		(102)
Increase in other liabilities	(1,259)	(6,570)
Net cash provided by operating activities	21,035	18,763
Investing activities:		
Purchases of and additional investments in:		
Fixed maturities	(236,935)	(96,031)
Equity securities	(1,700)	(108)
Property and equipment	(1,433)	(4,082)
Maturities and redemptions of fixed maturity investments	51,757	15,000
Sales:		
Fixed maturities	152,044	156,300
Net cash (used in) provided by investing activities	(36,266)	71,079
Financing activities:		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	529	306
Acquisition of treasury stock	(1,692)	(46,107)
Dividends paid to shareholders	(1,633)	(1,676)
Net cash used in financing activities	(2,796)	(47,477)
Net (decrease) increase in cash and cash equivalents	(18,026)	42,365
Cash and cash equivalents at beginning of period	122,241	36,645

Cash and cash equivalents at end of period	$	104,215	$	79,010

See Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

	For the nine months ended September 30, 2009	2008
Operating Activities:		
Net earnings	$ 35,932	$ 30,514
Adjustments:		
Depreciation and amortization	7,343	9,179
Realized losses on investing activities	18,070	14,788
Loss on disposal of fixed assets	98	455
Share-based compensation expense	1,111	1,742
Decrease in accrued investment income	862	2,311
(Increase) decrease in agents balances and premium receivable	(8,949)	7,630
Decrease in reinsurance receivables	4,708	5,897
Increase in deferred policy acquisition costs	(1,073)	(86)
Decrease in other assets	4,995	76
Decrease in insurance claims and reserves	(5,137)	(41,448)
Decrease in payable to reinsurers	(954)	(44)
Decrease in other liabilities	(3,103)	(11,864)
Net cash provided by operating activities	53,902	19,150
Investing Activities:		
Purchases of and additional investments in:		
Fixed maturities	(393,813)	(474,545)
Equity securities	(1,817)	(588)
Property and equipment	(3,718)	(11,897)
Maturities and redemptions of fixed maturity investments	119,653	49,210
Sales:		
Fixed maturities	245,740	508,480
Net cash (used in) provided by investing activities	(33,955)	70,661
Financing Activities:		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	790	649
Accelerated share repurchase settlement payment		(768)
Acquisition of treasury stock	(20,837)	(52,271)
Dividends paid to shareholders	(4,958)	(5,242)
Net cash used in financing activities	(25,006)	(57,632)
Net (decrease) increase in cash and cash equivalents	(5,059)	32,179
Cash and cash equivalents at beginning of period	109,274	46,831
Cash and cash equivalents at end of period	$ 104,215	$ 79,010

See Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

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3. Computation of Earnings Per Share
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6. Long-term Debt
7. Income Taxes
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9. Insurance Reserves
10. Restructuring Charges
11. Commitments and Contingencies

Note 1 ***Reporting and Accounting Policies***

Nature of Operations

Infinity Property and Casualty Corporation (Infinity or the Company) is a holding company that, through subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance. Although licensed to write insurance in all 50 states and the District of Columbia, Infinity focuses on select states that management believes offer the greatest opportunity for premium growth and profitability.

Basis of Consolidation and Reporting

The accompanying consolidated financial statements are unaudited and should be read in conjunction with Infinity Property and Casualty Corporation s Annual Report on Form 10-K for the year ended December 31, 2008. This Quarterly Report on Form 10-Q, including the Notes to the Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations, focuses on Infinity s financial performance since the beginning of the year.

These financial statements reflect certain adjustments necessary for a fair presentation of Infinity s results of operations and financial position. Such adjustments consist of normal, recurring accruals recorded to accurately match expenses with their related revenue streams and the elimination of all significant inter-company transactions and balances.

Infinity has evaluated subsequent events through November 6, 2009, the date at which the company s financial statements were issued.

Schedules may not foot due to rounding.

Estimates

Certain accounts and balances within these financial statements are based upon management s estimates and assumptions. The amount of reserves for claims not yet paid, for example, is an item that can only be recorded by estimation. Unrealized capital gains and losses on investments are subject to market fluctuations, and management uses judgment in the determination of whether unrealized losses on certain securities are temporary or other-than-temporary. Should actual results differ significantly from these estimates, the effect on Infinity s results of operations could be material. The results of operations for the periods presented may not be indicative of the Company s results for the entire year.

New Accounting Standards Adopted

In June 2009, the Financial Accounting Standards Board (FASB) approved its Accounting Standards Codification (ASC) (Codification) as the single source of authoritative accounting principles recognized by the FASB. Codification does not create new accounting and reporting standards but reorganizes their structure. The Company adopted this standard for its interim reporting period ended September 30, 2009 and the adoption had no material impact on the Company s financial statements.

For periods ending after June 15, 2009, Infinity adopted the authoritative guidance in ASC 855, Subsequent Events, (prior authoritative literature: FASB Statement No. 165, Subsequent Events) which establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting standard requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of this standard had no material impact on the Company s financial statements.

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Condensed Notes to Consolidated Financial Statements

For periods ending after June 15, 2009, Infinity adopted the authoritative guidance in ASC 820, Fair Value Measurements and Disclosures, and ASC 825, Financial Instruments (prior authoritative literature: FASB Staff Position No. 107-1 and APB Opinion 28-1, Interim Disclosures about Fair Value of Financial Instruments; FASB Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly) which requires disclosures about the fair value of financial instruments for interim reporting periods. This codification also provides additional guidance in determining fair value when the volume and level of activity for the asset or liability has significantly decreased. The adoption had no material impact on the Company s financial statements.

For periods ending after June 15, 2009, Infinity adopted the authoritative guidance in ASC 320, Investments Debt and Equity Securities, (prior authoritative literature: FASB Staff Position No. 115-2 and FASB Staff Position No. 124-2, Recognition of Other-than-Temporary-Impairments) which states that, if a fixed maturity security is considered other-than-temporarily impaired but the company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss portion, which is the difference between the security s amortized cost and the present value of expected future cash flows, is recognized in earnings. The amount due to all other factors is recognized in other comprehensive income, net of tax. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge is required to reduce the amortized cost of that security to fair value. As a result of the adoption, Infinity recorded a cumulative effect adjustment of $38.1 million to reclassify the non-credit component of previously recognized impairments from retained earnings to accumulated other comprehensive income.

Additional disclosures required by this standard are contained in Note 5 to the Consolidated Financial Statements.

Reclassifications

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on total shareholders equity or net earnings as previously reported.

Note 2 ***Share-Based Compensation***

Restricted Stock Plan

Infinity s Amended Restricted Stock Plan was established in 2002 and amended on July 31, 2007. There were 500,000 shares of Infinity common stock reserved for issuance under the Restricted Stock Plan, of which 206,609 shares have been issued through September 30, 2009. The fair value of shares issued under Infinity s Restricted Stock Plan is expensed over the vesting periods of the awards based on the market value of Infinity s stock on the date of grant.

On July 31, 2007, Infinity s Compensation Committee approved the grant of 72,234 shares of restricted stock to certain officers under the Company s Amended 2002 Restricted Stock Plan. These shares will vest in full on July 31, 2011. During the vesting period, the shares will not have voting rights but will accrue dividends, which will not be paid until the shares have vested. The shares are treated as issued and outstanding for calculation of diluted earnings per share only. Until fully vested, the shares will not be considered issued and outstanding for purposes of the basic earnings per share calculation. During the third quarter and first nine months of 2009, $0.2 million and $0.6 million, respectively, of expense was recorded in the Consolidated Statements of Earnings related to the grant of restricted stock. During the third quarter and first nine months of 2008, $0.2 million and $0.6 million, respectively, of expense was recorded in the Consolidated Statements of Earnings related to the grant of restricted stock.

Non-Employee Directors Stock Ownership Plan

In May 2005, Infinity s shareholders approved the Non-Employee Directors Stock Ownership Plan (the Directors Plan). The purpose of the Directors Plan is to include Infinity common stock as part of the compensation provided to its non-employee directors and to provide for stock ownership requirements for Infinity s non-employee directors. There are 200,000 shares of Infinity common stock reserved for issuance under the Directors Plan, of which 29,630 shares have been issued through September 30, 2009. Under the terms of the Directors Plan, shares are granted

on or about June 1 of each year and the recipient may not sell or transfer the shares for six months from the date of grant. On June 2, 2008, a total of 7,494 shares of common stock, determined pursuant to the Directors Plan and valued at $300,000, were issued to Infinity s non-employee directors. On June 1, 2009, a total of 9,583 shares of common stock, determined pursuant to the Directors Plan and valued at $350,000, were issued to Infinity s non-employee directors.

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Condensed Notes to Consolidated Financial Statements

Employee Stock Purchase Plan

Infinity established the Employee Stock Purchase Plan (the ESPP) in 2004. Under this plan, all eligible full-time employees may purchase shares of Infinity common stock at a 15% discount to the current market price. Employees may allocate up to 25% of their base salary with a maximum annual participation amount of $25,000. The source of shares issued to participants is treasury shares or authorized but previously unissued shares. The maximum number of shares which may be issued under the ESPP is 1,000,000, of which 36,263 have been issued through September 30, 2009. Infinity s ESPP is qualified under Section 423 of the Internal Revenue Code of 1986, as amended. The 15% discount for shares purchased during the three-month periods ended September 30, 2009 and 2008 approximated $8,000 and $11,000, respectively. The 15% discount for shares purchased during the nine-month periods ended September 30, 2009 and 2008 approximated $24,000 and $35,000, respectively. The discounts were recognized as compensation expense in the Consolidated Statements of Earnings in each period. Participants shares are treated as issued and outstanding for earnings per share calculations.

Performance Share Plan

On May 20, 2008, Infinity s shareholders approved the Performance Share Plan (the Plan). The purpose of the Plan is to further align the interest of management with the long-term shareholders of the company by including performance-based compensation, payable in shares of common stock, as a component of an executive s annual compensation. The Plan is administered by the Compensation Committee (Committee), which is composed solely of three outside directors as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. No member of the Committee, while serving as such, is eligible to be granted performance share units. The Committee will (i) establish the performance goals, which may include but are not limited to, combined ratio, premium growth, growth within certain specific geographic areas and earnings per share or return on equity over the course of the upcoming three year period (a Performance Measurement Cycle), (ii) determine the Plan participants, (iii) set the performance share units to be awarded to such participants, and (iv) set the rate at which performance share units will convert to shares of common stock based upon attainment of the performance goals. The number of shares of common stock that may be issued under the Plan is limited to 500,000 shares. No shares have been issued under this plan.

A review of the 2008 Performance Share Plan during the third quarter of 2009 indicated that the established 2008 to 2010 premium growth goals will likely not be met and no performance share units are expected to be awarded under this plan. Accordingly, Infinity did not record any expense for the plan during the third quarter of 2009. Infinity recorded $(0.2) million of expense during the first nine months of 2009 to reverse expense previously recorded for the plan. During the third quarter and first nine months of 2008, $0.2 million and $0.5 million, respectively, of expense was recognized in the Consolidated Statements of Earnings for the 2008 Performance Share Plan.

During the third quarter and first nine months of 2009, approximately $0.1 million and $0.4 million, respectively, of expense was recognized in the Consolidated Statements of Earnings related to the 2009 Performance Share Plan.

Stock Option Plan

Infinity s Stock Option Plan (SOP) was amended in May 2008 to prohibit any future grant of stock options from the plan after May 20, 2008. No options have been granted since 2004. Options were generally granted with an exercise price equal to the closing price of Infinity s stock at the date of grant and have a 10-year contractual life. All of the options under this plan have fully vested. Subject to specific limitations contained in the SOP, Infinity s Board of Directors has the ability to amend, suspend or terminate the plan at any time without shareholder approval. The SOP will continue in effect until the exercise or expiration of all options granted under the plan.

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Condensed Notes to Consolidated Financial Statements

As permitted by the Stock Compensation topic of the FASB Accounting Standards Codification, Infinity used the modified Black-Scholes model with the assumptions noted below to estimate the value of employee stock options on the date of grant. Expected volatilities are based on historical volatilities of Infinity s stock. Infinity selected the expected option life to be 7.5 years, which represents the midpoint between the last vesting date and the end of the contractual term. The risk-free rate for periods within the contractual life of the options is based on the yield on 10-year Treasury notes in effect at the time of grant. The dividend yield was based on expected dividends at the time of grant.

The weighted-average grant date fair values of options granted during 2004 and 2003 were estimated using the modified Black-Scholes valuation model and the following weighted-average assumptions:

	2004 Grants	2003 Grants
Weighted-average grant date fair value	$ 13.87	$ 5.97
Dividend yield	0.7%	1.4%
Expected volatility	33.0%	33.0%
Risk-free interest rate	4.3%	4.0%
Expected life	7.5 years	7.5 years
Weighted-average grant exercise price	$ 33.56	$ 16.11
Outstanding as of September 30, 2009	123,800	190,640

The following chart describes activity for Infinity s Stock Option Plan for the nine months ended September 30, 2009:

	Number of Options	Weighted-average Exercise Price	Weighted-average Remaining Term (in years)	Aggregate Intrinsic Value (a) (in millions)
Outstanding at December 31, 2008	338,560	$ 22.81		
Granted				
Exercised	(24,120)	$ 19.50		
Forfeited				
Outstanding at September 30, 2009	314,440	$ 23.06	3.78	$ 6.1
Vested or expected to vest as of September 30, 2009	314,440	$ 23.06	3.78	$ 6.1
Exercisable as of September 30, 2009	314,440	$ 23.06	3.78	$ 6.1

(a) The intrinsic value for the stock options is calculated based on the difference between the exercise price of the underlying awards and Infinity s closing stock price as of the reporting date.

The Stock Compensation topic of the FASB Accounting Standards codification requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As of September 30, 2009, Infinity used an estimated forfeiture rate of 0%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

Cash received from option exercises for the nine months ended September 30, 2009 and 2008 was approximately $0.5 million and $0.3 million, respectively. The actual tax benefit realized for the tax deductions from options exercised of share-based payment arrangements was approximately $0.2 million and $0.1 million, respectively, for the nine months ended September 30, 2009 and 2008. The total intrinsic value of options exercised during the nine months ended September 30, 2009 and 2008, was approximately $0.5 million and $0.4 million, respectively.

Infinity has a policy of issuing new stock for the exercise of stock options.

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Condensed Notes to Consolidated Financial Statements

Note 3 ***Computation of Earnings Per Share***

The following table illustrates the computation of Infinity s basic and diluted earnings per common share (in thousands, except per share figures):

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Net earnings for basic and diluted earnings per share	$ 8,224	$ 4,369	$ 35,932	$ 30,514
Average basic shares outstanding	13,534	15,260	13,713	15,838
Basic earnings per share	$ 0.61	$ 0.29	$ 2.62	$ 1.93
Average basic shares outstanding	13,534	15,260	13,713	15,838
Restricted stock not yet vested	72	72	72	72
Dilutive effect of assumed option exercises	146	167	136	156
Average diluted shares outstanding	13,753	15,499	13,921	16,066
Diluted earnings per share	$ 0.60	$ 0.28	$ 2.58	$ 1.90

Note 4 ***Fair Value***

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

The following table presents for each of the fair-value hierarchy levels the Company s assets and liabilities that are measured at fair value on a recurring basis at September 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 104,215	$	$	$ 104,215
Available-for-sale securities				
Fixed maturities	233,557	879,215	22,039	1,134,811
Equity securities	39,436			39,436
Total assets	$ 377,208	$ 879,215	$ 22,039	$ 1,278,462
Percentage of total	29.5%	68.8%	1.7%	100.0%

Level 1 includes cash and cash equivalents, U.S. Treasury securities and an exchange-traded fund that makes up Infinity s equity portfolio. Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Level 3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments, (ii) securities whose fair value is determined based on unobservable inputs and (iii) securities, other than securities backed by the U.S. Government, that are not rated by a nationally recognized statistical rating organization.

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The following table presents the changes in the Level 3 fair value category at September 30, 2009 (in thousands):

	Available-for-Sale Securities	
	For the three months ended September 30, 2009	For the nine months ended September 30, 2009
Balance at beginning of period	$ 24,042	$ 45,556
Total gains or losses (realized or unrealized)		
Included in net earnings	(713)	(2,942)
Included in other comprehensive income	3,112	4,101
Purchases, sales, issuances and settlements	(3,018)	(12,887)
Transfers in to Level 3		1,671
Transfers out of Level 3	(1,383)	(13,460)
Balance at September 30, 2009	$ 22,039	$ 22,039

The gains or losses included in net earnings are included in the line item realized gains (losses) on investments on the Consolidated Statements of Earnings.

Of the $22.0 million fair value of securities in Level 3, which consists of 18 securities, 14 are priced based on non-binding broker quotes or prices from various outside sources. When there are multiple prices obtained for the same security, a hierarchy is used that determines the best price, which is used as the basis for the fair value presented in the financial statements. The remaining four securities, which have a fair value of $3.9 million, are manually calculated based on expected principal repayments from Bloomberg, the zero spot Treasury curve at September 30, 2009 and the average spreads to Treasury for the type and rating of the security being priced. For one security with a fair value of $2.0 million, which is no longer rated, the assumed rating for valuation purposes was D .

The following table presents the carrying value and estimated fair value of Infinity s financial instruments (in thousands):

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$ 104,215	$ 104,215	$ 109,274	$ 109,274
Available-for-sale securities				
Fixed maturities	1,134,811	1,134,811	1,032,237	1,032,237
Equity securities	39,436	39,436	31,157	31,157
Total assets	$ 1,278,462	$ 1,278,462	$ 1,172,668	$ 1,172,668
Liabilities:				
Long-term debt	$ 199,623	$ 194,400	$ 199,567	$ 179,063

See Note 5 of the Consolidated Financial Statements for additional information on investments and Note 6 for additional information on long-term debt.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

Note 5 ***Investments***

All fixed maturity and equity securities are considered available-for-sale and reported at fair value with the net unrealized gains or losses reported after-tax (net of any valuation allowance) as a component of other comprehensive income. The proceeds from sales of securities for the three and nine months ended September 30, 2009 were $152.0 million and $245.7 million, respectively. Proceeds from sales of securities for the three and nine months ended September 30, 2008 were $156.3 million and $508.5 million, respectively.

Summarized information for the major categories of Infinity s investment portfolio follows (in thousands):

	September 30, 2009				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Temporary Unrealized Losses	Other-than-temporary Impairment Recognized in Accumulated OCI	Fair Value
Fixed maturities:					
U.S. government	$ 228,234	$ 5,517	$ (194)	$	$ 233,557
Government-sponsored entities	78,452	1,650	(2)		80,099
State and municipal	231,937	10,710	(99)		242,548
Mortgage-backed securities:					
Residential	166,694	4,631			171,326
Commercial	32,968	601			33,569
Total mortgage-backed securities	$ 199,662	$ 5,232	$	$	$ 204,894
Collateralized mortgage obligations	112,723	878	(325)	(981)	112,297
Asset-backed securities	10,810	13	(25)	(4)	10,795
Corporates	244,914	8,095	(103)	(2,284)	250,621
Total fixed maturities	$ 1,106,733	$ 32,095	$ (748)	$ (3,268)	$ 1,134,811
Equity securities	33,244	6,192			39,436
Total	$ 1,139,977	$ 38,287	$ (748)	$ (3,268)	$ 1,174,248

	December 31, 2008			
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
U.S. government	$ 159,031	$ 9,232	$	$ 168,263
Government-sponsored entities	33,210	1,652		34,861
State and municipal	217,951	4,344	(1,696)	220,598
Mortgage-backed securities:				
Residential	129,664	5,268		134,932
Commercial	37,754	59	(2,325)	35,488

Total mortgage-backed securities	$ 167,419	$ 5,327	$ (2,325)	$ 170,420
Collateralized mortgage obligations	162,100	1,199	(5,680)	157,619
Asset-backed securities	22,926	28	(375)	22,578
Corporates	261,486	3,218	(6,807)	257,898
Total fixed maturities	$ 1,024,121	$ 25,000	$ (16,883)	$ 1,032,237
Equity securities	31,157			31,157
Total	$ 1,055,278	$ 25,000	$ (16,883)	$ 1,063,394

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Condensed Notes to Consolidated Financial Statements

The following table sets forth the amount of unrealized loss by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	Less than 12 Months				12 Months or More			
	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost
September 30, 2009								
Fixed maturities:								
U.S. government	1	$ 5,872	$ (194)	3.2%		$	$	0.0%
Government-sponsored entities	1	1,012	(2)	0.2%				0.0%
State and municipal	4	7,137	(56)	0.8%	1	2,373	(44)	1.8%
Mortgage-backed securities:								
Residential				0.0%				0.0%
Commercial				0.0%				0.0%
Total mortgage-backed securities		$	$	0.0%		$	$	0.0%
Collateralized mortgage obligations	2	2,867	(310)	9.7%	9	27,025	(996)	3.6%
Asset-backed securities				0.0%	3	602	(28)	4.5%
Corporate	41	20,601	(313)	1.5%	13	8,034	(2,074)	20.5%
Total fixed maturities	49	$ 37,489	$ (875)	2.3%	26	$ 38,034	$ (3,142)	7.6%
Equity securities				0.0%				0.0%
Total	49	$ 37,489	$ (875)	2.3%	26	$ 38,034	$ (3,142)	7.6%

	Less than 12 Months				12 Months or More			
	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost
December 31, 2008								
Fixed maturities:								
U.S. government		$	$	0.0%		$	$	0.0%
Government-sponsored entities				0.0%				0.0%
State and municipal	31	57,901	(1,696)	2.9%				0.0%
Mortgage-backed securities:								
Residential				0.0%				0.0%
Commercial	8	28,101	(2,325)	7.6%				0.0%
Total mortgage-backed securities	8	$ 28,101	$ (2,325)	7.6%		$	$	0.0%
Collateralized mortgage obligations	14	56,556	(5,680)	9.1%				0.0%
Asset-backed securities	14	5,257	(369)	7.0%	2	698	(6)	0.9%
Corporate	93	114,945	(6,447)	5.3%	4	3,613	(360)	9.1%

Total fixed maturities	160	$ 262,759	$ (16,518)	5.9%	6	$ 4,311	$ (366)	7.8%
Equity securities				0.0%				0.0%
Total	160	$ 262,759	$ (16,518)	5.9%	6	$ 4,311	$ (366)	7.8%

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Gross unrealized losses at September 30, 2009 are primarily attributable to the following:

- Unrealized losses in collateralized mortgage obligations, particularly in non-GSE Whole Loan securities which have declined in value due to widening credit spreads-to-Treasury securities for non-GSE collateralized mortgage obligations;
- A $1.9 million non-credit impairment loss on an investment grade corporate bond with a fair value of $1.3 million.

The determination of whether unrealized losses are other-than-temporary requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- the length of time the security s market value has been below its cost;
- the extent to which fair value is less than cost basis;
- the intent to sell the security;
- whether it is more likely than not that there will be a requirement to sell the security before its anticipated recovery;
- historical operating, balance sheet and cash flow data contained in issuer SEC filings;
- issuer news releases;
- near-term prospects for improvement in the issuer and/or its industry;
- industry research and communications with industry specialists; and
- third-party research and credit rating reports.

Management regularly evaluates for potential impairment each security position that has any of the following: a fair value of less than 95% of its book value, an unrealized loss that equals or exceeds $100,000 or one or more impairment charges recorded in the past. In addition, management reviews positions held related to an issuer of a previously impaired security.

	September 30, 2009	December 31, 2008
Number of positions held with unrealized:		
Gains	408	229
Losses	75	166
Number of positions held that individually exceed unrealized:		
Gains of $500,000	7	9
Losses of $500,000	1	5
Percentage of positions held with unrealized:		
Gains that were investment grade	83%	96%
Losses that were investment grade	36%	80%
Percentage of fair value held with unrealized:		
Gains that were investment grade	97%	99%
Losses that were investment grade	71%	94%

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Condensed Notes to Consolidated Financial Statements

The following table sets forth the amount of unrealized loss by age and severity at September 30, 2009 (in thousands):

Age of unrealized loss:	**Fair Value of Securities with Unrealized Losses**	**Total Gross Unrealized Losses**	**Less than 5%***	**5% - 10%***	**Total Gross Greater than 10%***
Less than or equal to:					
Three months	20,112	(124)	(124)		
Six months	9,068	(307)	(230)	(77)	
Nine months	7,213	(140)	(107)	(33)	
Twelve months	10,520	(2,444)	(75)	(165)	(2,204)
Greater than twelve months	28,611	(1,001)	(337)	(526)	(139)
Total	75,522	(4,017)	(873)	(801)	(2,343)

* As compared to amortized cost or cost.

The change in unrealized gains (losses) on marketable securities included the following (in thousands):

	Pre-tax			
	Fixed Maturities[1]	**Equity Securities**	**Tax Effects**	**Net**
Nine months ended September 30, 2009				
Unrealized holding gains (losses) on securities arising during the period	$ 39,999	$ 6,192	$ (16,167)	$ 30,024
Realized (gains) losses on securities sold	(1,311)		459	(852)
Impairment loss recognized in earnings	19,381		(6,783)	12,598
Change in unrealized gains (losses) on marketable securities, net	$ 58,069	$ 6,192	$ (22,491)	$ 41,770
Nine months ended September 30, 2008				
Unrealized holding gains (losses) on securities arising during the period	$ (34,450)	$ (9,121)	$ 15,250	$ (28,321)
Realized (gains) losses included in net earnings	14,788		(5,176)	9,612
Change in unrealized gains (losses) on marketable securities, net	$ (19,662)	$ (9,121)	$ 10,074	$ (18,710)

[1] Excludes $38.1 million reclass of the non-credit component of previously recognized impairments from retained earnings to accumulated other comprehensive income on April 1, 2009 as part of the adoption of FASB ASC 320-10-65

For fixed maturity securities that are other-than-temporarily impaired, Infinity assesses its intent to sell and the likelihood that the company will be required to sell the security before recovery of its amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but the company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the

amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss component of an impairment charge on a fixed maturity security is determined by the excess of the amortized cost over the present value of the expected cash flows. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows varies depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive income.

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Condensed Notes to Consolidated Financial Statements

The following table is a progression of credit losses on fixed maturity securities for which a portion was recognized in other accumulated other comprehensive income (in thousands):

Balance at April 1, 2009	$ 1,635
Additional credit impairments on:	
Previously impaired securities	2,948
Securities without prior impairments	520
Reductions for securities sold	(729)
Additions for previously all credit	7,910
Other adjustments[1]	(5)
Balance at September 30, 2009	$ 12,279

[1] Other adjustments include reductions to the beginning balance for securities that no longer have a non-credit component.

The table below sets forth the scheduled maturities of fixed maturity securities at September 30, 2009, based on their fair values (in thousands). Securities that do not have a single maturity date are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Fair Value				Amortized Cost
Maturity	**Securities with Unrealized Gains**	**Securities with Unrealized Losses**	**Securities with No Unrealized Gains or Losses**	**All Fixed Maturity Securities**	**All Fixed Maturity Securities**
One year or less	$ 66,848	$ 256	$ 3,909	$ 71,013	$ 70,073
After one year through five years	468,126	8,223	3,293	479,643	467,321
After five years through ten years	163,954	30,444	453	194,852	187,009
After ten years	49,503	6,105	5,710	61,318	59,134
MBS, CMO and ABS	246,877	30,493	50,616	327,986	323,196
Total	$ 995,307	$ 75,522	$ 63,982	$ 1,134,811	$ 1,106,733

Note 6 ***Long-term Debt***

In February 2004, Infinity issued $200 million principal of senior notes due February 2014 (the Senior Notes). The Senior Notes accrue interest at an effective yield of 5.55% and bear a coupon of 5.5%, payable semiannually. At the time the notes were issued, Infinity capitalized $2.1 million of debt issuance costs, which are being amortized over the term of the Senior Notes. The September 30, 2009 fair value of $194.4 million was calculated using a 293 basis point spread to the ten-year U.S. Treasury Note of 3.307%.

In August 2008, Infinity entered into an agreement for a $50 million three-year revolving credit facility (the Credit Agreement) that requires Infinity to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the Credit Agreement. At

September 30, 2009, there were no borrowings outstanding under the Credit Agreement.

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Condensed Notes to Consolidated Financial Statements

Note 7 ***Income Taxes***

Income tax expense for the three and nine months ended September 30, 2009 was $9.2 million and $24.5 million, respectively, compared to $7.7 million and $21.2 million for the same periods of 2008. The following table reconciles Infinity s statutory federal income tax rate to its effective tax rate (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Earnings before income taxes	$ 17,411	$ 12,020	$ 60,440	$ 51,705
Income taxes at statutory rates	6,094	4,207	21,154	18,097
Effect of:				
Dividends-received deduction	(38)	(43)	(111)	(133)
Tax-exempt interest	(601)	(650)	(1,846)	(2,235)
Adjustment to valuation allowance	3,708	4,083	5,277	5,159
Other	24	54	34	303
Provision for income taxes as shown on the Consolidated Statements of Earnings	$ 9,187	$ 7,651	$ 24,508	$ 21,191
GAAP effective tax rate	52.8%	63.7%	40.6%	41.0%

In the third quarter and first nine months of 2009, Infinity increased its tax valuation allowance by approximately $3.7 million and $5.3 million, respectively, primarily due to an increase in the deferred tax asset related to other-than-temporary impaired securities.

In the third quarter and first nine months of 2008, Infinity increased its tax valuation allowance by approximately $4.1 million and $5.2 million, respectively, primarily due to an increase in the deferred tax asset related to other-than-temporary impaired securities.

In June 2008, the Internal Revenue Service began an examination of the 2005 tax year. In August 2008, the examination was expanded to include the 2006 tax year. In December 2008, the examination was completed with one issue identified, which related to whether corporate litigation losses are deductible for tax purposes when reserved versus paid. The Company filed a protest regarding this issue with the Internal Revenue Service and the appeals settlement was finalized in September 2009. The appeals settlement did not have a material impact on Infinity s financial position.

No notice has been received for the 2007 or 2008 tax year.

Note 8 ***Supplemental Cash Flow Information***

Non-cash activity includes the issuance of and the accounting for stock-based compensation and the changes in net unrealized gains or losses in securities. The Company made the following payments that are not separately disclosed in the Consolidated Statements of Cash Flows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008

Income tax payments	$ 8,500	$ 1,000	$ 25,700	$ 16,700
Interest payments on debt	5,500	5,500	11,000	11,000

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Condensed Notes to Consolidated Financial Statements

Note 9 ***Insurance Reserves***

Insurance reserves include liabilities for unpaid losses, both known and estimated for incurred but not reported (IBNR), and unpaid loss adjustment expenses (LAE). The following table provides an analysis of changes in the liability for unpaid losses and LAE on a GAAP basis (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Balance at Beginning of Period				
Unpaid losses on known claims	$ 169,753	$ 203,025	$ 179,530	$ 225,415
IBNR losses	196,830	185,028	196,891	186,402
LAE	167,419	193,092	168,335	206,592
Total unpaid losses and LAE	534,002	581,145	544,756	618,409
Reinsurance recoverables	(18,557)	(24,031)	(20,516)	(28,219)
Unpaid losses and LAE, net of reinsurance recoverables	515,445	557,114	524,241	590,190
Current Activity				
Loss and LAE incurred:				
Current accident year	154,269	166,190	476,515	513,789
Prior accident years	(13,211)	(1,281)	(33,364)	(13,508)
Total loss and LAE incurred	141,057	164,909	443,151	500,281
Loss and LAE payments:				
Current accident year	(101,870)	(113,623)	(239,046)	(269,578)
Prior accident years	(40,514)	(55,812)	(214,227)	(268,305)
Total loss and LAE payments	(142,384)	(169,435)	(453,273)	(537,883)
Balance at End of Period				
Unpaid losses and LAE, net of reinsurance recoverables	514,118	552,588	514,118	552,588
Add back reinsurance recoverables	17,907	23,548	17,907	23,548
Total unpaid losses and LAE	$ 532,025	$ 576,136	$ 532,025	$ 576,136
Unpaid losses on known claims	$ 169,814	$ 207,321	$ 169,814	$ 207,321
IBNR losses	196,715	190,087	196,715	190,087
LAE	165,497	178,728	165,497	178,728
Total unpaid losses and LAE	$ 532,025	$ 576,136	$ 532,025	$ 576,136

The $13.2 million and $33.4 million of favorable development during the three and nine months ended September 30, 2009, respectively, primarily relates to liability coverages on the nonstandard personal auto programs in California, Connecticut and Florida in accident years 2006 through 2008. In addition, there was favorable development on loss and LAE reserves relating to liability coverages in the Commercial Vehicle program. Included in the favorable development for the three and nine months ended September 30, 2009 is $2.4 million and $2.6 million,

pre-tax respectively, related to the cancellation of non-escheatable claim checks that accumulated over several periods. The accumulation of cancelable checks was the result of an error that occurred over multiple quarters and the impact to any previously reported annual or quarterly period was immaterial.

The $1.3 million and $13.5 million of favorable development during the three and nine months ended September 30, 2008, respectively, primarily relates to liability coverages of the personal insurance business assumed through a reinsurance contract (the Assumed Agency Business) from Infinity s former parent company s principal property and casualty subsidiary, Great American Insurance Company. In addition, there was favorable development on LAE reserves relating to liability coverages in the California, Florida and Pennsylvania non-standard programs.

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Condensed Notes to Consolidated Financial Statements

Note 10 ***Restructuring Charges***

In October 2006, Infinity announced plans to consolidate certain of its customer service, claims and information technology operations. The objective of the restructuring is to improve service levels and to manage the operations more consistently and cost effectively.

Restructuring costs incurred in 2006, 2007, 2008 and the three and nine months ended September 30, 2009 are as follows (in thousands):

	2006	2007	2008	Three months ended September 30, 2009	Nine months ended September 30, 2009	Total
Employee related costs	$ 4,782	$ (562)	$ 331	$	$ 2	$ 4,553
Contract termination costs		1,929	389			2,318
Other exit costs		326	68			394
Total	$ 4,782	$ 1,693	$ 788	$	$ 2	$ 7,265

Infinity does not expect to incur any additional costs related to the restructuring.

Activities related to accrued restructuring charges as of September 30, 2009 are as follows (in thousands):

	Employee related costs	Contract termination costs	Total liability
Balance at December 31, 2008	$ 139	$ 1,229	$ 1,368
Incurred	6		6
Costs paid or settled	(141)	(541)	(682)
Net adjustments	(4)		(4)
Balance at September 30, 2009	$	$ 687	$ 687

Note 11 ***Commitments and Contingencies***

Commitments

In December 2006, Infinity entered into an eleven year operating lease for a call center facility in Birmingham, Alabama. This lease provides Infinity the right and option to purchase the property for $16.9 million in July 2011. This option expires on October 1, 2010. Infinity has made an offer to purchase the building for $16.1 million in advance of the July 2011 date. This offer has been accepted but is contingent upon the resolution of several legal issues by the current building owner, due diligence by Infinity and the successful execution of the sales contract. Infinity intends to use current funds to complete the purchase.

Contingencies

For material changes from the contingencies discussed in the Form 10-K for the year ended December 31, 2008, refer to Part II, Item 1, Legal Proceedings and other-than-temporary impairments on investments contained in Note 5 Investments.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

ITEM 2

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain statements that may be deemed to be forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in this report not dealing with historical results or current facts are forward-looking and are based on estimates, assumptions, and projections. Statements which include the words believes, seeks, expects, may, should, intends, likely, targets, plans, anticipates, estimates or the negative version of those words and similar statements of a future or forward-looking nature identify forward-looking statements. Examples of such forward-looking statements include statements relating to expectations concerning market conditions, premium, growth, earnings, investment performance, expected losses, rate changes and loss experience.

Actual results could differ materially from those expected by Infinity depending on: changes in economic conditions and financial markets (including interest rates), the adequacy or accuracy of Infinity s pricing methodologies, determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio including other-than-temporary impairments for credit losses, actions of competitors, the approval of requested form and rate changes, judicial and regulatory developments affecting the automobile insurance industry, the outcome of pending litigation against Infinity, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions), changes in driving patterns and loss trends. Infinity undertakes no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements see Risk Factors contained in Part II, Item 1A of this report, as well as in Part I, Item 1A of Infinity s Annual Report on Form 10-K for the twelve months ended December 31, 2008.

OVERVIEW

Weak economic conditions and rising unemployment continued to pose a challenge with regard to growing revenue in the third quarter of 2009. However, favorable loss costs trends throughout the year have contributed to strong earnings.

Net earnings and diluted earnings per share for the three months ended September 30, 2009 were $8.2 million and $0.60, respectively, compared to $4.4 million and $0.28, respectively, for the three months ended September 30, 2008. Net earnings and diluted earnings per share for the nine months ended September 30, 2009 were $35.9 million and $2.58, respectively, compared to $30.5 million and $1.90, respectively, for the nine months ended September 30, 2008. The increase in diluted earnings per share for the three and nine months ended September 30, 2009 is primarily due to an increase in underwriting income.

Included in net earnings for the three and nine months ended September 30, 2009 were $8.6 million ($13.2 million pre-tax) and $21.7 million ($33.4 million pre-tax), respectively, of favorable development on prior accident period loss and LAE reserves compared to $0.8 million ($1.3 million pre-tax) and $8.8 million ($13.5 million pre-tax), respectively, for the three and nine months ended September 30, 2008. See *Results of Operations Underwriting Profitability* for a more detailed discussion of Infinity s underwriting results.

Net realized losses on investments were $18.1 million for the first nine months of 2009 as compared to $14.8 million for the same period of 2008. Infinity had net realized losses on investments of $12.1 million for the third quarter of 2009 compared to losses of $11.6 million in the third quarter of 2008. Included in the net realized loss for the first nine months of 2009 is $19.4 million of other-than-temporary impairments on fixed income securities compared with $21.5 million of impairments during the first nine months of 2008. Included in the net realized loss for the third quarter of 2009 is $11.0 million of other-than-temporary impairments on fixed income securities compared with $13.8 million of impairments during the third quarter of 2008.

Total revenues declined 10.0% and 9.9% for the three and nine months ended September 30, 2009 compared with the same periods in 2008. The decline for both periods is primarily attributable to a decline in earned premiums as a result of decreases in gross written premiums in states such as Arizona, Florida and Georgia. See *Results of Operations Underwriting Premiums* for a more detailed discussion of Infinity s gross written premium growth.

Infinity s book value per share increased $6.51 or 17.6% from $37.05 at September 30, 2008 to $43.56 at September 30, 2009. This increase was primarily due to earnings and change in unrealized net gains on investments, net of shareholder dividends, for the twelve months ended September 30, 2009. Also increasing book value per share over this period by approximately $0.89 per share was the $13.3 million reduction in the deferred tax valuation reserve associated with the $38.1 million reclassification of other-than-temporary

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impairment reserve to unrealized losses required under FASB ASC 320-10-65 on April 1, 2009. Annualized return on equity for the three and nine months ended September 30, 2009 was 5.7% and 8.6%, respectively, compared with 3.0% and 7.0% for the three and nine months ended September 30, 2008.

RESULTS OF OPERATIONS

Underwriting

Premium

Infinity s insurance subsidiaries provide personal automobile insurance products with a concentration on nonstandard auto insurance. While there is no industry-recognized definition of nonstandard auto insurance, Infinity believes that it is generally understood to mean coverage for drivers who, because of their driving record, age or vehicle type, represent higher than normal risks and pay higher rates for comparable coverage. Infinity also writes commercial vehicle insurance and insurance for classic collectible automobiles (Classic Collector).

Infinity is licensed to write insurance in all 50 states and the District of Columbia, but focuses its operations in targeted urban areas (Urban Zones) identified within selected focus states that management believes offer the greatest opportunity for premium growth and profitability.

Infinity classifies the states in which it operates into three categories:

- Focus States Infinity has identified Urban Zones in these states which include: Arizona, California, Florida, Georgia, Illinois, Nevada, Pennsylvania and Texas.

- Maintenance States Infinity is maintaining its writings in these states which include: Alabama, Colorado, Connecticut, Missouri, Ohio, South Carolina, and Tennessee. Infinity believes each state offers the Company an opportunity for underwriting profit.

- Other States Includes all remaining states.

Infinity further classifies territories within the Focus States into two categories:

- Urban Zones include the following urban areas:

  - Arizona Phoenix and Tucson

  - California Bay Area, Los Angeles, Sacramento, San Diego, and San Joaquin Valley

  - Florida Jacksonville, Miami, Orlando, Sarasota and Tampa

Georgia	Atlanta
Illinois	Chicago
Nevada	Las Vegas
Pennsylvania	Allentown and Philadelphia
Texas	Dallas, Fort Worth, Houston and San Antonio

Non-Urban Zones include all remaining areas in the Focus States located outside of a designated Urban Zone.
Infinity continually evaluates its market opportunities; thus the Focus States, Urban Zones, Maintenance States and Other States may change over time as new market opportunities arise, as the allocation of resources changes or as regulatory environments change. In the tables below, Infinity has restated 2008 premium, policies-in-force and combined ratios to be consistent with the 2009 definition of Urban Zones, Focus States, Maintenance States and Other States.

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The following table shows Infinity s net earned premium for the three months ended September 30, 2009 and 2008 ($ in thousands):

	Three months ended September 30,			
	2009	**2008**	**$ Change**	**Change**
Net earned premium				
Gross written premium				
Personal auto insurance:				
Focus States:				
Urban Zones	$ 166,928	$ 168,741	$ (1,813)	(1.1)%
Non-Urban Zones	21,799	25,535	(3,736)	(14.6)%
Total Focus States	188,727	194,276	(5,549)	(2.9)%
Maintenance States	7,151	10,600	(3,449)	(32.5)%
Other States	418	837	(419)	(50.0)%
Subtotal	196,297	205,713	(9,417)	(4.6)%
Commercial Vehicle	13,331	11,086	2,245	20.3%
Classic Collector	2,956	5,876	(2,920)	(49.7)%
Other	(1)	177	(178)	(100.4)%
Total gross written premium	212,583	222,852	(10,269)	(4.6)%
Ceded reinsurance	(1,236)	(916)	(319)	34.9%
Net written premium	211,348	221,936	(10,588)	(4.8)%
Change in unearned premium	(1,010)	9,158	(10,169)	(111.0)%
Net earned premium	$ 210,337	$ 231,094	$ (20,757)	(9.0)%

The following table shows Infinity s net earned premium for the nine months ended September 30, 2009 and 2008 ($ in thousands):

	Nine months ended September 30,			
	2009	**2008**	**$ Change**	**Change**
Net earned premium				
Gross written premium				
Personal auto insurance:				
Focus States:				
Urban Zones	$ 505,501	$ 531,935	$ (26,433)	(5.0)%
Non-Urban Zones	66,905	82,956	(16,052)	(19.3)%
Total Focus States	572,406	614,891	(42,485)	(6.9)%
Maintenance States	24,408	35,946	(11,538)	(32.1)%
Other States	1,347	2,839	(1,492)	(52.6)%
Subtotal	598,160	653,676	(55,516)	(8.5)%

Commercial Vehicle	40,533	32,742	7,791	23.8%
Classic Collector	11,131	16,766	(5,635)	(33.6)%
Other	111	685	(574)	(83.8)%
Total gross written premium	649,936	703,868	(53,932)	(7.7)%
Ceded reinsurance	(3,813)	(3,125)	(688)	22.0%
Net written premium	646,123	700,743	(54,620)	(7.8)%
Change in unearned premium	(7,389)	(1,222)	(6,167)	504.8%
Net earned premium	$ 638,734	$ 699,521	$ (60,787)	(8.7)%

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The following table shows Infinity s policies-in-force as of September 30, 2009 and 2008:

	As of September 30,			
	2009	2008	Change	Change
Policies-in-force				
Personal auto insurance:				
Focus States:				
Urban Zones	593,003	597,378	(4,375)	(0.7)%
Non-Urban Zones	68,025	82,053	(14,028)	(17.1)%
Total Focus States	661,028	679,431	(18,403)	(2.7)%
Maintenance States	24,394	35,211	(10,817)	(30.7)%
Other States	1,090	2,370	(1,280)	(54.0)%
Total personal auto insurance	686,512	717,012	(30,500)	(4.3)%
Commercial Vehicle	26,601	18,449	8,152	44.2%
Classic Collector	47,172	61,206	(14,034)	(22.9)%
Other	2	485	(483)	(99.6)%
Total policies-in-force	760,287	797,152	(36,865)	(4.6)%

Gross written premium decreased 4.6% and 7.7% during the third quarter and first nine months of 2009, respectively, compared with the same periods of 2008. During the first nine months of 2009, Infinity implemented 25 rate revisions in various states with an overall rate increase of less than 1%. Policies-in-force at September 30, 2009 decreased 4.6% compared with the same period in 2008. Gross written premium declined more than policies-in-force due to a shift in the business mix to more liability only policies, which have lower average premium. Infinity believes customers are opting for these minimum coverage policies as a result of the economic downturn.

Infinity s agents and policyholders were affected by a continued deterioration in the economy in the third quarter as unemployment rates in five of eight Focus States were above 10% and consumer confidence remained weak. Agents report that many policyholders are reducing purchases of some auto coverage, raising deductibles or dropping coverage altogether, all of which have decreased Infinity s premium volume. In states such as Florida and Georgia, Infinity has taken aggressive actions over the past year to improve profit margins, including raising rates, which has further reduced written premium.

During the third quarter and first nine months of 2009, personal auto insurance gross written premium in Infinity s eight Focus States decreased 2.9% and 6.9% compared with the same periods in 2008. The decline in gross written premium is primarily a result of declines in Florida, Georgia and Arizona. Gross written premium in Florida declined 12.1% and 22.1% during the third quarter and first nine months of 2009, respectively, as compared with the same periods of 2008. The decline is due primarily to Infinity raising rates 15.1% during 2008 and tightening underwriting standards to improve profitability. In Georgia, gross written premium declined 29.9% and 27.9% during the third quarter and first nine months of 2009 as compared with the same periods of 2008. This decline is primarily a result of rate increases intended to improve profitability in the state. Gross written premium in Arizona declined 21.5% and 29.1% during the third quarter and first nine months of 2009, respectively, as compared with the same periods of 2008. This decline is primarily due to competitor rate decreases and worsening economic conditions in the state. Personal auto gross written premiums grew during the three months ended September 30, 2009 in California, Illinois and Pennsylvania. Gross written premium in California, Infinity s largest state by premium volume, was up 2.9% for the third quarter and down just 0.2% for the first nine months of 2009 as compared to the same periods of 2008.

Gross written premium in the Maintenance States declined 32.5% and 32.1% during the third quarter and first nine months of 2009, respectively, compared to the same periods of 2008. Infinity has increased rates in several of the Maintenance States over the last twelve months in an effort

to improve profitability.

Infinity s Commercial Vehicle gross written premium increased 20.3% and 23.8% during the third quarter and first nine months of 2009, respectively, compared to the same periods of 2008, primarily from growth in California, a new market for this product.

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Profitability

A key operating performance measure of insurance companies is underwriting profitability, as opposed to overall profitability or net earnings. Underwriting profitability is measured by the combined ratio. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the ratio is over 100%, underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, other income, other expenses or federal income taxes.

While financial data is reported in accordance with GAAP for shareholder and other investment purposes it is reported on a statutory basis for insurance regulatory purposes. Infinity evaluates underwriting profitability based on a combined ratio calculated using statutory accounting principles. The statutory combined ratio represents the sum of the following ratios: (i) losses and LAE incurred as a percentage of net earned premium and (ii) underwriting expenses incurred, net of fees, as a percentage of net written premium. Certain expenses are treated differently under statutory and GAAP accounting principles. Under GAAP, commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized as deferred policy acquisition costs and amortized on a pro rata basis over the period in which the related premium are earned; on a statutory basis these items are expensed as incurred. Costs for computer software developed or obtained for internal use are capitalized under GAAP and amortized over their useful life, rather than expensed as incurred, as required for statutory purposes. Additionally, bad debt charge-offs on agent balances and premium receivables are included only in the GAAP combined ratios.

The following table presents the statutory and GAAP combined ratios:

	Three months ended September 30,								
	2009			2008			% Point Change		
	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio
Personal Auto Insurance:									
Focus States:									
Urban Zones	67.7%	20.0%	87.7%	67.7%	19.4%	87.2%	0.0%	0.6%	0.5%
Non-Urban Zones	66.2%	21.3%	87.5%	86.5%	21.3%	107.8%	(20.4)%	0.0%	(20.4)%
Total Focus States	67.5%	20.1%	87.7%	70.2%	19.7%	89.9%	(2.7)%	0.5%	(2.3)%
Maintenance States	53.1%	23.6%	76.7%	70.5%	21.9%	92.4%	(17.3)%	1.7%	(15.6)%
Other States	NM	NM	NM	NM	NM	NM	NM	NM	NM
Subtotal	66.6%	20.3%	86.9%	70.2%	19.9%	90.1%	(3.7)%	0.4%	(3.2)%
Commercial Vehicle	85.0%	21.4%	106.3%	123.2%	18.9%	142.1%	(38.2)%	2.5%	(35.8)%
Classic Collector	41.0%	43.6%	84.6%	62.5%	41.1%	103.6%	(21.6)%	2.6%	(19.0)%
Other	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total statutory ratios	67.1%	20.7%	87.8%	71.6%	20.6%	92.2%	(4.5)%	0.1%	(4.4)%

GAAP ratios	67.1%	22.4%	89.5%	71.4%	22.1%	93.5%	(4.3)%	0.3%	(4.0)%

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	Nine months ended September 30,								
	2009			2008			% Point Change		
	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio
Personal Auto Insurance:									
Focus States:									
Urban Zones	70.5%	20.0%	90.5%	71.7%	20.3%	92.0%	(1.2)%	(0.3)%	(1.5)%
Non-Urban Zones	68.9%	20.9%	89.8%	76.1%	21.7%	97.8%	(7.2)%	(0.8)%	(8.0)%
Total Focus States	70.3%	20.1%	90.4%	72.3%	20.5%	92.8%	(2.0)%	(0.4)%	(2.4)%
Maintenance States	67.4%	23.9%	91.3%	73.8%	23.0%	96.7%	(6.4)%	1.0%	(5.4)%
Other States	NM	NM	NM	NM	NM	NM	NM	NM	NM
Subtotal	70.1%	20.3%	90.3%	72.1%	20.7%	92.8%	(2.1)%	(0.4)%	(2.4)%
Commercial Vehicle	71.8%	21.5%	93.3%	105.9%	22.0%	127.9%	(34.1)%	(0.5)%	(34.6)%
Classic Collector	38.9%	41.0%	79.8%	44.7%	41.6%	86.3%	(5.9)%	(0.6)%	(6.5)%
Other	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total statutory ratios	69.4%	20.6%	90.0%	71.5%	21.5%	93.0%	(2.2)%	(0.9)%	(3.1)%
GAAP ratios	69.4%	21.9%	91.3%	71.5%	23.0%	94.5%	(2.1)%	(1.1)%	(3.2)%

NM: not meaningful due to the low premium for these lines.

In evaluating the profit performance of Infinity s business, the Company s management reviews underwriting profitability using statutory combined ratios. Accordingly, the discussion of underwriting results that follows will focus on these ratios and the components thereof.

The statutory combined ratio for the third quarter and first nine months of 2009 decreased 4.4 and 3.1 points, respectively, compared with the same periods of 2008. The third quarter and first nine months of 2009 benefited from $13.2 million and $33.4 million, respectively, of favorable development on loss and LAE reserves compared to $1.3 million and $13.5 million of favorable development for the same periods of 2008, respectively. Included in the favorable development for the three and nine months ended September 30, 2009 is $2.4 million and $2.6 million, pre-tax respectively, related to the cancellation of non-escheatable claim checks that accumulated over several periods. The accumulation of cancelable checks was the result of an error that occurred over multiple quarters and the impact to any previously reported annual or quarterly period was immaterial. Excluding the impact of the favorable development of loss and LAE reserves, overall statutory combined ratios for the third quarter and nine months ended September 30, 2009 were 94.0% and 95.2%, respectively. Excluding the impact of the favorable development of loss and LAE reserves, overall statutory combined ratios for the third quarter and nine months ended September 30, 2008 were 92.8% and 95.0%, respectively. Losses from catastrophes were $0.4 million and $0.6 million for the three and nine months ended September 30, 2009, respectively, compared to $1.3 million and $1.8 million for the same periods of 2008.

The combined ratio improvement in the Focus States during the third quarter and first nine months of 2009 is primarily a result of favorable development on loss and LAE reserves in California and Florida. Excluding favorable development, the loss and LAE ratio in the Focus States for the first nine months of 2009 has increased compared with the first nine months of 2008 primarily as a result of an increase in the loss ratio in California, where Infinity took rate decreases in late 2007 and mid-2008 in order to comply with the state s Fair Rate of Return regulations, as well as an increase in frequency and severity in bodily injury coverage.

The loss and LAE ratio in the Maintenance States declined for the three and nine months ended September 30, 2009 as compared with the same period in 2008 primarily as a result of favorable development on LAE reserves in Connecticut and Missouri.

The loss and LAE ratio for the Commercial Vehicle business decreased substantially during the third quarter and first nine months of 2009 compared with the same periods in 2008 primarily as a result of an extra-contractual claim in Florida recorded during 2008. Excluding this claim, the combined ratio for the third quarter and first nine months of 2008 would be 87.4% and 79.3%, respectively. This compares with 106.3% and 93.3%, respectively, for the same periods of 2009. The increase in the combined ratio for the first nine months of 2009 as compared to the same period of 2008, excluding the extra-contractual claim, is a result of an increase in the loss ratio in California due to a shift toward new business, which typically has a higher loss ratio than renewal business.

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Net Investment Income

Net investment income is comprised of gross investment revenue and investment management fees and expenses, as shown in the following table (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Investment income:				
Interest income on fixed maturities, cash and cash equivalents	$ 12,405	$ 14,345	$ 38,812	$ 45,005
Dividends on equity securities	181	206	532	637
Gross investment income	$ 12,586	$ 14,551	$ 39,343	$ 45,642
Investment expenses	(478)	(453)	(1,439)	(1,397)
Net investment income	$ 12,107	$ 14,098	$ 37,904	$ 44,245
Average investment balance	$ 1,244,677	$ 1,313,141	$ 1,215,155	$ 1,328,194
Investment book yield (gross of expense, not annualized)	1.0%	1.1%	3.2%	3.4%

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income for the three and nine months ended September 30, 2009 declined compared to the same periods in 2008 primarily due to a decline in book yields as a result of a general decline in market interest rates for high quality bonds.

Infinity recorded impairments for unrealized losses deemed other-than-temporary and realized gains and losses on sales and disposals, as follows (before tax, in thousands):

	Three months ended September 30, 2009			Three months ended September 30, 2008		
	Impairments recognized in earnings	Realized gains (losses) on sales	Total realized losses	Impairments on securities held	Realized gains on sales	Total realized losses
Fixed maturities	$ (11,037)	$ (1,077)	$ (12,113)	$ (13,797)	$ 2,174	$ (11,623)
Equities						
Total	$ (11,037)	$ (1,077)	$ (12,113)	$ (13,797)	$ 2,174	$ (11,623)

	Nine months ended September 30, 2009			Nine months ended September 30, 2008		
	Impairments recognized in earnings	Realized gains on sales	Total realized losses	Impairments on securities held	Realized gains on sales	Total realized losses
Fixed maturities	$ (19,381)	$ 1,311	$ (18,070)	$ (21,494)	$ 6,706	$ (14,788)
Equities						
Total	$ (19,381)	$ 1,311	$ (18,070)	$ (21,494)	$ 6,706	$ (14,788)

For Infinity s securities held with unrealized losses, management believes that, based on its analysis (i) Infinity will recover its cost basis in these securities and (ii) that Infinity does not intend to sell the securities nor is it more likely than not that there will be a requirement to sell the securities before they recover in value. Should either of these beliefs change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to accurately predict if or when a specific security will become impaired, charges for other-than-temporary impairments could be material to results of operations in a future period.

Impairment losses recognized in earnings were $11.0 million and $19.4 million for the three and nine months ended September 30, 2009, respectively. These losses primarily relate to collateralized mortgage obligations, particularly in non-GSE planned amortization class and commercial mortgage backed securities. Additionally, Infinity recognized impairment losses on asset-backed securities which were recently downgraded by one or more nationally recognized statistical rating organizations. Because of the rating downgrades, these securities no longer meet Infinity s investment guidelines; therefore, the Company intends to sell them in the near future.

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Interest Expense

The Senior Notes accrue interest at an effective yield of 5.55% (Refer to Note 6 of the Consolidated Financial Statements for additional information on the Senior Notes). Interest expense on the Senior Notes recognized in the Consolidated Statements of Earnings for each of the three and nine months ended September 30, 2009 was $2.8 million and $8.3 million, respectively, compared to $2.8 million and $8.3 million, respectively, for the same periods of 2008.

Other Income

Other income was less then $0.1 million for each of the three and nine months ended September 30, 2009, compared to $0.2 million and $1.9 million for the corresponding periods of 2008. Other income for the nine months ended September 30, 2008 includes $0.6 million in fees received on renewal premium from the 2005 sale of the Assumed Agency Business Connecticut personal auto book. The other items included in other income are non-recurring.

Other Expense

Other expense for the three months ended September 30, 2009 was $0.4 million compared to $1.2 million for the corresponding period of 2008. Other expense for the nine months ended September 30, 2009 was $1.8 million compared to $4.0 million for the same period of 2008. The decline is primarily due to a decrease in operating expenses relating to Infinity s retail store initiative, which the company has decided to no longer pursue.

Income Taxes

The Company s GAAP effective tax rate for the three and nine months ended September 30, 2009 was 52.8% and 40.6%, respectively, compared to 63.7% and 41.0% for the same periods of 2008. The tax rate for the nine months ended September 30, 2009 as well as the third quarter and first nine months of 2008 are both above the statutory rate of 35% as the Company fully reserved for the tax benefit on realized capital losses.

Infinity increased its tax valuation allowance by approximately $3.7 million and $5.3 million, respectively, for the three and nine months ended September 30, 2009, primarily due to an increase in the deferred tax asset related to other-than-temporarily impaired securities. Excluding the valuation allowance, the Company s effective tax rate would be 32.9% and 32.6% for the three and nine months, respectively, ended September 30, 2009 and 32.3% and 31.9% for the same periods of 2008.

(See Note 7 of the Consolidated Financial Statements for additional information)

Receivable and Payable for Securities

The $2.4 million balance in receivable for securities sold at September 30, 2009 represents fixed income securities sold in the normal course of business on or before September 30, 2009 with a settlement date in October 2009.

Of the $36.9 million of payable for securities sold, less than $0.1 million relates to treasury stock purchased on or before September 30, 2009 with a settlement date in October 2009. The remaining amount represents fixed income securities purchased in the normal course of business on or before September 30, 2009 with a settlement date in October 2009.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

Infinity is organized as a holding company with all of its operations being conducted by its insurance subsidiaries. Accordingly, Infinity will have continuing cash needs for administrative expenses, the payment of interest on borrowings, shareholder dividends, share repurchases and taxes. Administrative expenses at the holding company currently average approximately $6.9 million annually.

At September 30, 2009, Infinity had outstanding $200 million principal of Senior Notes due 2014, bearing a fixed 5.5% interest rate. Interest payments on the Senior Notes of $5.5 million are due each February and August through maturity in February 2014. (Refer to Note 6 of the Consolidated Financial Statements for more information on the Senior Notes).

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In February 2009, Infinity increased its quarterly dividend to $0.12 per share from $0.11 per share. At this current amount, Infinity s 2009 annualized dividend payments would be approximately $6.6 million.

In October 2006, the Company announced that the Board of Directors approved a share repurchase program expiring on the earlier of December 31, 2008 or the completion of all purchases contemplated by the program, whereby the Company may repurchase up to an aggregate amount of $100 million of its outstanding common shares. Effective July 24, 2008, Infinity s Board of Directors authorized an increase in the repurchase authority under the program by $74.3 million to $100.0 million as of that date. On August 6, 2009, the Board of Directors increased the authority by $28.8 million to $50.0 million as of that date (for an aggregate of $203.1 million since inception), modified the authority to include the repurchase of Infinity s debt and extended the date to execute this program to December 31, 2010. During the first quarter of 2009, Infinity repurchased 293,900 shares at an average cost, excluding commissions, of $35.37. During the second quarter of 2009, Infinity repurchased 247,100 shares at an average cost, excluding commissions, of $35.23. During the third quarter of 2009, Infinity repurchased 37,800 shares at an average cost, excluding commissions, of $38.80. As of September 30, 2009, Infinity had $49.6 million of authority remaining under this program.

Funds to meet expenditures at the holding company come primarily from dividends and tax payments from the insurance subsidiaries as well as cash and investments held by the holding company. As of September 30, 2009, Infinity had $134.2 million of cash and investments. In 2009, Infinity s insurance subsidiaries may pay to Infinity up to $43.0 million in ordinary dividends without prior regulatory approval. For the nine months ended September 30, 2009, $30.0 million of dividends were paid to Infinity by its insurance subsidiaries.

In August 2008, Infinity entered into an agreement for a $50 million three-year revolving credit facility (the Credit Agreement) that requires Infinity to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the Credit Agreement. At September 30, 2009, there were no borrowings outstanding under the Credit Agreement.

Infinity s insurance subsidiaries generate liquidity to satisfy their obligations primarily by collecting and investing premium in advance of paying claims and investment income on its $1.0 billion investment portfolio. Infinity s insurance subsidiaries cash flow from operations was approximately $27.7 million and $67.6 million for the three and nine month periods ended September 30, 2009, respectively, and approximately $16.8 million and $26.1 million for the three and nine month periods ended September 30, 2008, respectively.

Management believes that cash balances, cash flows generated from operations or borrowings, and maturities and sales of investments are adequate to meet the future liquidity needs for Infinity and its insurance subsidiaries.

Reinsurance

Infinity uses excess of loss and catastrophe reinsurance to mitigate the financial impact of large or catastrophic losses. During 2009, the catastrophe reinsurance provides protection for losses up to $15 million in excess of $5 million for any single event. Infinity s excess of loss reinsurance provides reinsurance protection for commercial auto losses up to $700,000 for claims exceeding $300,000 per occurrence. Infinity also uses reinsurance to mitigate losses on its Classic Collector business. Effective December 1, 2008, Infinity entered into a reinsurance agreement that provides for protection for losses up to $15 million in excess of $5 million for any single extra-contractual loss with a claims occurrence date between December 1, 2008 and November 30, 2009. Infinity intends to renew this agreement upon expiration.

Premiums ceded under all reinsurance agreements for the three months ended September 30, 2009 and 2008 were $1.2 million and $0.9 million, respectively. Premiums ceded under these agreements for the nine months ended September 30, 2009 and 2008 were $3.8 million and $3.1 million, respectively.

Investments

Infinity s consolidated investment portfolio at September 30, 2009 contained approximately $1.1 billion in fixed maturity securities and $39.4 million in equity securities, all carried at fair value with unrealized gains and losses reported as a separate component of shareholders equity on an after-tax basis. At September 30, 2009, Infinity had pre-tax net unrealized gains of $28.1 million on fixed maturities and pre-tax net unrealized gains of $6.2 million on equity securities. Combined, the pre-tax net unrealized gain increased by $26.2 million for the nine months

ended September 30, 2009.

Approximately 93.9% of Infinity s fixed maturity investments at September 30, 2009 were rated investment grade, and as of the same date, the average credit rating of Infinity s fixed maturity portfolio was AA. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. Management believes that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

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Since all of these securities are carried at fair value in the balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses. The average duration of Infinity s fixed maturity portfolio is 3.0 years at September 30, 2009.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

Level 1 securities are U.S. Treasury securities and an exchange-traded fund that makes up Infinity s equity portfolio. Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Level 3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments, (ii) securities whose fair value is determined based on unobservable inputs and (iii) securities, other than those backed by the U.S. Government, that are not rated by a nationally recognized statistical rating organization.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

Summarized information for Infinity s investment portfolio at September 30, 2009 is as follows (in thousands):

(in thousands)	Amortized Cost	Fair Value	% of Total Fair Value
U.S. government and agencies:			
U.S. government	228,234	233,557	19.9%
Government agencies	78,452	80,099	6.8%
Total U.S. government and agencies	306,686	313,657	26.7%
State and municipal	231,937	242,548	20.7%
Mortgage-backed, asset-backed and CMOs:			
Residential mortgage-backed securities	166,694	171,326	14.6%
Commercial mortgage-backed securities	32,968	33,569	2.9%
Collateralized mortgage obligations:			
PAC	76,353	76,943	6.6%
Whole loan	17,572	16,908	1.4%
Sequentials	16,243	16,170	1.4%
Accredited directed	1,773	1,631	0.1%
Junior	783	643	0.1%
Total CMO	112,723	112,297	9.6%
Asset-backed securities:			
Auto loans	705	717	0.1%
Home equity	1,039	1,010	0.1%
Equipment leases	9,066	9,067	0.8%
Total ABS	10,810	10,795	0.9%
Total Mortgage-backed, asset-backed and CMOs	323,196	327,986	27.9%
Corporates			
Investment grade	188,824	193,424	16.5%
Non-investment grade	56,090	57,197	4.9%
Total corporates	244,914	250,621	21.3%
Total fixed maturities	1,106,733	1,134,811	96.6%
Equity securities	33,244	39,436	3.4%
Total investment portfolio	1,139,977	1,174,248	100.0%

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Management s Discussion and Analysis of Financial Condition and Results of Operations

The following table presents the credit rating and fair value (in thousands) of Infinity s fixed maturity portfolio by major security type:

	Rating						
	AAA	AA	A	BBB	Non-investment grade	Fair Value	% of Total Exposure
U.S. government and agencies	$ 313,657	$	$	$	$	$ 313,657	27.6%
State and municipal	36,237	129,341	71,117	2,406	3,447	242,548	21.4%
Mortgage-backed, asset-backed and CMO	275,401	14,109	5,757	23,937	8,782	327,986	28.9%
Corporates	28,798	12,629	101,398	50,599	57,197	250,621	22.1%
Total Fair Value	$ 654,092	$ 156,079	$ 178,273	$ 76,942	$ 69,426	$ 1,134,811	100.0%
% of Total Fair Value	57.6%	13.8%	15.7%	6.8%	6.1%	100.0%	

Other than securities backed by the U.S. government or issued by government-sponsored enterprises, Infinity s fixed income portfolio contains no securities issued by any single issuer that exceed 1% of the fair value of the fixed income portfolio.

Since 2007, the mortgage industry has experienced a rise in mortgage delinquencies and foreclosures, particularly among lower quality exposures (sub-prime and Alt-A). As a result, many securities with underlying sub-prime and Alt-A mortgages as collateral experienced significant drops in market value. Infinity has only modest exposure to these types of investments. At September 30, 2009, Infinity s fixed maturity portfolio included 9 securities, or 1.0% of the total fair value of the fixed maturity portfolio, with exposure to sub-prime and Alt-A mortgages. Although these securities have sub-prime mortgages as underlying collateral, five have AAA ratings. The remaining four securities have a combined fair value of $5.8 million.

The following table presents the credit rating and fair value of Infinity s MBS and CMO portfolio at September 30, 2009, excluding Government-sponsored Enterprises (GSE), by deal origination year (in thousands):

	Rating						
Deal Origination Year	AAA	AA	A	BBB	Non-Investment Grade	Fair Value	% of Total Exposure
1999	$	$ 643	$	$	$	$ 643	0.6%
2002	5,939					5,939	5.5%
2003	6,283				1,315	7,599	7.0%
2004	18,656	4,314				22,970	21.3%
2005	18,110	9,151	4,694	15,295	2,903	50,154	46.5%
2006	8,080		1,063		4,155	13,298	12.3%
2009	7,344					7,344	6.8%
Total Fair Value	$ 64,413	$ 14,109	$ 5,757	$ 15,295	$ 8,373	$ 107,948	100.0%
% of Total Fair Value	59.7%	13.1%	5.3%	14.2%	7.8%	100.0%	

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Management s Discussion and Analysis of Financial Condition and Results of Operations

The following table presents the credit rating and fair value of Infinity s GSE MBS and CMO portfolio at September 30, 2009 by deal origination year (in thousands):

	Rating						
Deal Origination Year	**AAA**	**AA**	**A**	**BBB**	**Non-Investment Grade**	**Fair Value**	**% of Total Exposure**
2002	$ 8,268	$	$	$	$	$ 8,268	4.0%
2003	11,243					11,243	5.4%
2004	9,828					9,828	4.7%
2005	1,225					1,225	0.6%
2007	1,521					1,521	0.7%
2008	106,006					106,006	50.7%
2009	71,152					71,152	34.0%
Total Fair Value	$ 209,243	$	$	$	$	$ 209,243	100.0%
% of Total Fair Value	100.0%	0.0%	0.0%	0.0%	0.0%	100.0%	

The following table presents the credit rating and fair value of Infinity s ABS portfolio at September 30, 2009 by deal origination year (in thousands):

	Rating						
Deal Origination Year	**AAA**	**AA**	**A**	**BBB**	**Non-Investment Grade**	**Fair Value**	**% of Total Exposure**
2001	$ 70	$	$	$	$	$ 70	0.7%
2002	426					426	3.9%
2003	423					423	3.9%
2004	108					108	1.0%
2005					409	409	3.8%
2007				8,641		8,641	80.1%
2009	717					717	6.6%
Total Fair Value	$ 1,745	$	$	$ 8,641	$ 409	$ 10,795	100.0%
% of Total Fair Value	16.2%	0.0%	0.0%	80.1%	3.8%	100.0%	

The $8.6 million fair value in BBB rated ABS securities relates to a single security.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

In 2008, several municipal bond insurers had their credit ratings downgraded or placed under review by one or more nationally recognized statistical rating organizations. These downgrades were a result of a perceived weakening of the insurers financial strength as a result of losses incurred on mortgage-backed and asset-backed securities. These securities experienced increased delinquencies and defaults as a result of a weakening economy and housing market in particular.

Infinity s investment portfolio consists of $242.5 million of municipal bonds, of which $143.8 million are insured. Of the insured bonds, 31.2% are insured with MBIA, 29.1% with Assured Guaranty, 21.7% with AMBAC, 17.6% with FGIC and 0.5% are insured with XL Capital. The following table presents the underlying ratings, represented by the lower of Standard and Poor s, Moody s or Fitch s ratings, of the insured municipal bond portfolio (in thousands) at September 30, 2009:

	Insured		Uninsured		Total	
	Fair Value	% of Fair Value	Fair Value	% of Fair Value	Fair Value	% of Fair Value
AAA	$ 5,538	3.9%	$ 30,698	31.1%	$ 36,237	14.9%
AA+, AA, AA-	82,073	57.1%	47,268	47.9%	129,341	53.3%
A+, A, A-	50,316	35.0%	20,802	21.1%	71,117	29.3%
BBB+, BBB, BBB-	2,406	1.7%		0.0%	2,406	1.0%
BB+, BB, BB-	1,933	1.3%		0.0%	1,933	0.8%
Not rated	1,513	1.1%		0.0%	1,513	0.6%
Total	$ 143,780	100.0%	$ 98,768	100.0%	$ 242,548	100.0%

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ITEM 3

Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2009, there were no material changes to the information provided in Infinity s Form 10-K for the year ended December 31, 2008 under the caption Exposure to Market Risk in Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4

Controls and Procedures

Infinity s chief executive officer and chief financial officer, with assistance from management, evaluated Infinity s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15) as of September 30, 2009. Based on that evaluation, they concluded that the controls and procedures are effective. There has been no change in Infinity s internal controls during the first nine months of 2009 that has materially affected, or is reasonably likely to materially affect, Infinity s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)).

PART II

OTHER INFORMATION

ITEM 1

Legal Proceedings

The Company has not become a party to any material legal proceedings nor have there been any material developments in the Company s legal proceedings disclosed in the Company s Form 10-K for the year ended December 31, 2008 and in the Company s Form 10-Q for the period ended June 30, 2009. For a description of the Company s previously reported legal proceedings, refer to Part I, Item 3, Legal Proceedings, in the form 10-K for the year ended December 31, 2008 and Part II, Item 1, Legal Proceedings, in the Form 10-Q for the period ended June 30, 2009.

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ITEM 1A

Risk Factors

There have been no material changes in the Company s risk factors as disclosed in the Company s Form 10-K for the year ended December 31, 2008. For a description of the Company s previously reported risk factors, refer to Part I, Item 1A, Risk Factors, in the Form 10-K for the year ended December 31, 2008.

ITEM 2

Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs
July 1, 2009 July 31, 2009	28,200	$ 37.22	28,200	$ 21,195,896
August 1, 2009 August 31, 2009	4,700	$ 43.39	4,700	49,833,883
September 1, 2009 September 30, 2009	4,900	$ 43.50	4,900	49,620,602
Total	37,800	$ 38.80	37,800	$ 49,620,602

(a) Average price paid per share excludes commissions.

(b) In October 2006, the Company announced that the Board of Directors approved a share repurchase program whereby the Company may repurchase up to an aggregate of $100 million of its outstanding shares. On July 24, 2008, the Board of Directors approved an additional $74.3 million to be added to the current remaining share repurchase authority, bringing the total share repurchase authority as of that date to $100 million, and extended the date to complete the repurchases to December 31, 2009. Effective August 6, 2009, Infinity s Board of Directors increased this authority by $28.8 million to $50.0 million, modified the authority to include the repurchase of Infinity s debt and extended the date to execute this program to December 31, 2010.

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ITEM 6

Exhibits

Exhibit 31.1 -	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2 -	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
Exhibit 32 -	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signature

Pursuant to the requirements of the Securities and Exchange Act of 1934, Infinity Property and Casualty Corporation has duly caused this Report to be signed on its behalf by the undersigned duly authorized.

Infinity Property and Casualty Corporation

November 6, 2009

BY: /s/ ROGER SMITH
Roger Smith
Executive Vice President, Chief Financial Officer and Treasurer

(principal financial and accounting officer)

ont-family:inherit;font-size:9pt;">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.

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.

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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 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.

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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

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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.

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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.

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

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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.

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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.

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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.

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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

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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.

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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.

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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)

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 (in thousands)	Weighted-Average Grant-Date Fair Value
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)

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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.

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.

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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.

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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.

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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.

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.

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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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