

Heartland Payment Systems, Inc. and Subsidiaries
Condensed Consolidated Statements of Income and Comprehensive Income
(In thousands, except per share data)
(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2008	2007	2008	2007
Total Revenues	\$ 385,929	\$ 341,574	\$ 1,544,902	\$ 1,313,846
Costs of Services:				
Interchange	268,987	250,587	1,093,546	962,025
Dues, assessments and fees	16,833	14,749	67,648	57,050
Processing and servicing	48,114	33,250	173,743	126,599
Customer acquisition costs	12,040	10,862	48,522	44,193
Depreciation and amortization	3,530	1,779	11,006	6,806
Total costs of services	349,504	311,227	1,394,465	1,196,673
General and administrative	22,499	16,877	79,828	57,404
Total expenses	372,003	328,104	1,474,293	1,254,077
Income from operations	13,926	13,470	70,609	59,769
Other income (expense):				
Interest income	101	484	755	1,934
Interest expense	(910)	(198)	(3,206)	(785)
Losses on investments	(156)	(1,650)	(395)	(1,650)
Exit costs for Service Center	—	(1,267)	—	(1,267)
Other, net	(29)	30	(5)	(841)
Total other income (expense)	(994)	(2,601)	(2,851)	(2,609)
Income before income taxes	12,932	10,869	66,758	57,160
Provision for income taxes	4,951	4,038	25,918	21,290
Net income	\$ 7,981	\$ 6,831	\$ 41,840	\$ 35,870
Net income	\$ 7,981	\$ 6,831	\$ 41,840	\$ 35,870
Other comprehensive income:				
Unrealized gains (losses) on investments, net of income tax of \$39, \$(14), \$29 and \$(25)	64	(23)	48	(41)
Foreign currency translation adjustment	(1,666)	—	(2,131)	—
Comprehensive income	\$ 6,379	\$ 6,808	\$ 39,757	\$ 35,829
Earnings per common share:				
Basic	\$ 0.21	\$ 0.18	\$ 1.12	\$ 0.95
Diluted	\$ 0.21	\$ 0.17	\$ 1.08	\$ 0.90
Weighted average number of common shares outstanding:				
Basic	37,634	37,964	37,521	37,686
Diluted	38,556	39,780	38,698	39,980

Heartland Payment Systems, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(unaudited)

	December 31,	
	2008	2007
Assets		
Current assets:		

Cash and cash equivalents	\$ 27,589	\$ 35,508
Funds held for payroll customers	22,002	24,201
Receivables, net	140,145	122,613
Investments	1,410	1,119
Inventory	8,381	5,383
Prepaid expenses	6,662	3,478
Current tax asset	2,440	5,449
Current deferred tax assets, net	6,723	690
Total current assets	215,352	198,441
Capitalized customer acquisition costs, net	77,737	70,498
Deferred tax assets, net	—	3,878
Property and equipment, net	75,443	50,248
Goodwill	58,456	5,489
Intangible assets, net	36,453	481
Deposits and other assets	178	154
Total assets	\$ 463,619	\$ 329,189

Liabilities and stockholders' equity

Current liabilities:

Due to sponsor banks	\$ 68,212	\$ 49,798
Accounts payable	25,864	20,495
Deposits held for payroll customers	22,002	24,201
Current portion of accrued buyout liability	10,547	11,521
Merchant deposits and loss reserves	16,872	14,757
Accrued expenses and other liabilities	26,315	15,266
Current portion of borrowings	58,522	—
Total current liabilities	228,334	136,038
Deferred tax liabilities, net	6,832	—
Reserve for unrecognized tax benefits	1,732	1,230
Long-term portion of borrowings	16,984	—
Long-term portion of accrued buyout liability	30,493	26,252
Total liabilities	284,375	163,520

Commitments and contingencies — —

Stockholders' equity

Common Stock, \$.001 par value, 100,000,000 shares authorized, 37,675,543 and 39,804,322 shares issued at December 31, 2008 and 2007; 37,675,543 and 37,989,622 shares outstanding at December 31, 2008 and 2007	38	40
Additional paid-in capital	167,337	173,346
Accumulated other comprehensive loss	(2,145)	(62)
Retained earnings	14,014	36,729
Treasury stock, at cost (1,814,700 shares at December 31, 2007)	—	(44,384)
Total stockholders' equity	179,244	165,669
Total liabilities and stockholders' equity	\$ 463,619	\$ 329,189

Heartland Payment Systems, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flow

(In thousands)

(unaudited)

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities			
Net income	\$ 41,840	\$ 35,870	\$ 28,544
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of capitalized customer acquisition costs	53,732	45,191	35,823
Other depreciation and amortization	14,423	8,616	7,557

Addition to loss reserve	5,693	3,035	1,970
Provision for doubtful receivables	2,045	1,249	628
Deferred taxes	4,023	1,020	(351)
Share-based compensation	1,517	1,747	1,323
Loss on investments	395	1,650	–
Exit costs for Service Center	–	1,267	–
Write downs on purchased software, fixed assets and system development costs	751	–	1,500
Other	(22)	295	254
Changes in operating assets and liabilities:			
Increase in receivables	(333)	(16,701)	(13,017)
Decrease (increase) in inventory	238	(1,737)	(438)
Payment of signing bonuses, net	(45,454)	(44,700)	(33,743)
Increase in capitalized customer acquisition costs	(15,517)	(14,284)	(15,855)
Increase in prepaid expenses	(2,507)	(1,448)	(59)
Decrease in current tax asset	3,754	21,401	10,978
Decrease (increase) in deposits and other assets	23	(61)	23
Excess tax benefits on options exercised under SFAS No. 123R	(710)	(7,623)	(28,603)
Increase in reserve for unrecognized tax benefits	502	463	–
Increase (decrease) in due to sponsor banks	18,413	22,545	(7,277)
Increase in accounts payable	4,083	3,544	1,325
Increase in accrued expenses and other liabilities	3,083	3,260	1,958
(Decrease) increase in merchant deposits and loss reserves	(5,789)	3,512	(1,210)
Payouts of accrued buyout liability	(7,039)	(8,806)	(10,664)
Increase in accrued buyout liability	10,306	13,286	15,483
Net cash provided by (used in) operating activities	87,450	72,591	(3,851)
Cash flows from investing activities			
Purchase of investments	(340)	(1,904)	(2,158)
Maturities of investments	284	310	1,258
Decrease (increase) in funds held for payroll customers	1,646	(7,376)	(5,972)
(Decrease) increase in deposits held for payroll customers	(2,199)	7,241	6,357
Acquisition of business, net of cash acquired	(106,865)	(6,300)	(3,453)
Purchases of property and equipment	(35,059)	(34,247)	(13,960)
Proceeds from disposal of property and equipment	35	–	–
Net cash used in investing activities	(142,498)	(42,276)	(17,928)
Cash flows from financing activities			
Proceeds from borrowings	95,000	–	–
Principal payments on borrowings and financing arrangements	(20,023)	(174)	(261)
Proceeds from exercise of stock options	3,075	9,955	27,658
Excess tax benefits on options exercised under SFAS No. 123R	710	7,623	28,603
Repurchase of common stock	(17,995)	(18,859)	(25,030)
Dividends paid on common stock	(13,489)	(9,431)	(1,861)
Net proceeds from sale of common stock	–	25	–
Net cash provided by (used in) financing activities	47,278	(10,861)	29,109
Net (decrease) increase in cash and cash equivalents	(7,770)	19,454	7,330
Effect of exchange rates on cash	(149)	–	–
Cash and cash equivalents at beginning of year	35,508	16,054	8,724
Cash and cash equivalents at end of year	\$ 27,589	\$ 35,508	\$ 16,054