

TOTAL SYSTEM SERVICES INC

Form 10-Q

November 04, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2011

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 number 1-10254

Total System Services, Inc.

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www.tsys.com

(Exact name of registrant as specified in its charter)

Georgia **58-1493818**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
One TSYS Way, Post Office Box 1755, Columbus, Georgia 31902

(Address of principal executive offices) (Zip Code)

(706) 649-2310

(Registrant's telephone number, including area code)

(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 Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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 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. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS
Common Stock, \$0.10 par value

OUTSTANDING AS OF: October 31, 2011
201,357,765 shares

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Table of Contents**TOTAL SYSTEM SERVICES, INC.****Part I Financial Information****Condensed Consolidated Balance Sheets****(Unaudited)**

<i>(in thousands, except per share data)</i>	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 280,713	394,795
Restricted cash	43	434
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of \$3.3 million and \$4.5 million at 2011 and 2010, respectively	246,971	237,646
Deferred income tax assets	10,340	11,090
Prepaid expenses and other current assets	93,724	77,848
Total current assets	631,791	721,813
Property and equipment, net of accumulated depreciation and amortization of \$352.4 million and \$317.4 million at 2011 and 2010, respectively	286,464	300,102
Computer software, net of accumulated amortization of \$552.5 million and \$497.6 million at 2011 and 2010, respectively	219,057	246,424
Contract acquisition costs, net of accumulated amortization of \$286.8 million and \$260.7 million at 2011 and 2010, respectively	162,475	166,251
Goodwill	355,917	320,399
Equity investments	81,036	77,127
Other intangible assets, net of accumulated amortization of \$36.4 million and \$27.6 million at 2011 and 2010, respectively	82,269	83,118
Deferred income tax assets, net	5,189	2,704
Other assets	24,852	34,323
Total assets	\$ 1,849,050	1,952,261
Liabilities		
Current liabilities:		
Current portion of long-term debt	\$ 40,155	39,557
Current portion of obligations under capital leases	13,919	13,191
Accrued salaries and employee benefits	26,283	27,414
Accounts payable	25,763	36,068
Other current liabilities	110,359	111,040
Total current liabilities	216,479	227,270
Long-term debt, excluding current portion	184,783	194,703
Deferred income tax liabilities	40,701	42,547
Obligations under capital leases, excluding current portion	26,280	30,573
Other long-term liabilities	63,104	53,363
Total liabilities	531,347	548,456
Redeemable noncontrolling interest in consolidated subsidiary		146,000

Equity

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Shareholders' equity:		
Common stock - \$0.10 par value. Authorized 600,000 shares; 201,611 and 201,326 issued at 2011 and 2010, respectively; 190,717 and 194,528 outstanding at 2011 and 2010, respectively	20,161	20,133
Additional paid-in capital	124,741	119,722
Accumulated other comprehensive income (loss), net	51	(2,585)
Treasury stock, at cost (shares of 10,894 and 6,798 at 2011 and 2010, respectively)	(186,452)	(115,449)
Retained earnings	1,339,672	1,219,303
Total shareholders' equity	1,298,173	1,241,124
Noncontrolling interests in consolidated subsidiaries	19,530	16,681
Total equity	1,317,703	1,257,805
Total liabilities and equity	\$ 1,849,050	1,952,261

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Condensed Consolidated Statements of Income****(Unaudited)**

<i>(in thousands, except per share data)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Total revenues	\$ 459,747	433,236	1,336,732	1,277,586
Cost of services	321,481	302,692	935,024	889,110
Selling, general and administrative expenses	57,086	51,630	168,970	150,021
Total operating expenses	378,567	354,322	1,103,994	1,039,131
Operating income	81,180	78,914	232,738	238,455
Nonoperating expenses	(3,794)	31	(5,363)	(1,402)
Income from continuing operations before income taxes and equity in income of equity investments	77,386	78,945	227,375	237,053
Income taxes	24,286	27,879	73,102	84,249
Income from continuing operations before equity in income of equity investments	53,100	51,066	154,273	152,804
Equity in income of equity investments, net of tax	4,588	1,103	7,475	4,363
Income from continuing operations, net of tax	57,688	52,169	161,748	157,167
Loss from discontinued operations, net of tax		(2,463)		(3,164)
Net income	57,688	49,706	161,748	154,003
Net loss (income) attributable to noncontrolling interests	460	(3,963)	(1,064)	(7,230)
Net income attributable to TSYS common shareholders	\$ 58,148	45,743	160,684	146,773
Basic earnings per share (EPS) (Note 13)*:				
Income from continuing operations to TSYS common shareholders	\$ 0.30	0.25	0.83	0.76
Loss from discontinued operations to TSYS common shareholders		(0.01)		(0.02)
Net income attributable to TSYS common shareholders	\$ 0.30	0.23	0.83	0.74
Diluted EPS*:				
Income from continuing operations to TSYS common shareholders	\$ 0.30	0.25	0.83	0.76
Loss from discontinued operations to TSYS common shareholders		(0.01)		(0.02)
Net income attributable to TSYS common shareholders	\$ 0.30	0.23	0.83	0.74
Amounts attributable to TSYS common shareholders:				
Income from continuing operations	\$ 58,148	48,206	160,684	149,937
Loss from discontinued operations		(2,463)		(3,164)
Net income	\$ 58,148	45,743	160,684	146,773

*Note: Basic and diluted EPS amounts for continuing operations and net income do not total due to rounding.
See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

<i>(in thousands)</i>	Nine months ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 161,748	154,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Net loss on foreign currency	2,751	34
Equity in income of equity investments, net of tax	(7,475)	(4,363)
Dividends received from equity investments	6,835	6,572
Depreciation and amortization	125,403	119,107
Amortization of debt issuance costs	115	115
Share-based compensation	12,693	11,727
Excess tax benefit from share-based payment arrangements	(50)	(111)
Asset impairments	798	
Provisions for (recoveries of) bad debt expenses and billing adjustments	328	(162)
Charges for transaction processing provisions	3,684	2,860
Deferred income tax expense	15,833	13,022
Loss (gain) on disposal of equipment, net	(1,396)	224
Loss on disposal of subsidiary		1,641
Changes in operating assets and liabilities:		
Accounts receivable	(4,382)	(33,997)
Prepaid expenses, other current assets and other long-term assets	(766)	(22,352)
Accounts payable	(15,629)	34,340
Accrued salaries and employee benefits	(2,610)	(27,616)
Other current liabilities and other long-term liabilities	(215)	24,858
Net cash provided by operating activities	297,665	279,902
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash used in acquisitions, net of cash acquired	(45,309)	(148,531)
Purchases of property and equipment, net	(18,121)	(29,848)
Additions to licensed computer software from vendors	(10,033)	(27,224)
Additions to internally developed computer software	(13,331)	(15,220)
Proceeds from sale of tradenames	4,500	
Purchase of private equity investments	(1,573)	
Additions to contract acquisition costs	(22,506)	(42,774)
Proceeds from disposition, net of expense paid and cash disposed		4,224
Net cash used in investing activities	(106,373)	(259,373)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of noncontrolling interest	(174,050)	
Repurchase of common stock	(73,361)	(46,228)
Dividends paid on common stock	(40,616)	(41,432)
Principal payments on long-term debt borrowings and capital lease obligations	(21,052)	(11,938)
Subsidiary dividends paid to noncontrolling shareholders	(433)	(250)
Excess tax benefit from share-based payment arrangements	50	111
Proceeds from exercise of stock options	1,743	543

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Net cash used in financing activities	(307,719)	(99,194)
CASH AND CASH EQUIVALENTS:		
Effect of exchange rate changes on cash and cash equivalents	2,345	1,310
Net decrease in cash and cash equivalents	(114,082)	(77,355)
Cash and cash equivalents at beginning of period	394,795	449,955
Cash and cash equivalents at end of period	\$ 280,713	372,600
Supplemental cash flow information:		
Interest paid	\$ 2,336	1,867
Income taxes paid, net	\$ 62,321	102,922

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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TOTAL SYSTEM SERVICES, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Total System Services, Inc.[®] (TSYS[®] or the Company) include the accounts of TSYS and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. These estimates and assumptions are developed based upon all information available. Actual results could differ from estimated amounts. All adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of financial position and results of operations for the periods covered by this report, have been included.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's summary of significant accounting policies, consolidated financial statements and related notes appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Results of interim periods are not necessarily indicative of results to be expected for the year.

Certain reclassifications have been made to the 2010 financial statements to conform to the presentation adopted in 2011.

Note 2 Fair Value Measurement

ASC 820, *Fair Value Measurements and Disclosure*, requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant level of inputs. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 Quoted prices for identical assets and liabilities in active markets.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs for the asset or liability.

In February 2007, the Financial Accounting Standards Board (FASB) issued authoritative guidance under ASC 825, *Financial Instruments*. ASC 825 permits the Company to choose to measure many financial instruments and certain other items at fair value. Upon adoption of the guidance on January 1, 2008, TSYS did not elect the fair value option for any financial instrument it did not currently report at fair value.

Goodwill and certain intangible assets not subject to amortization are assessed annually for impairment in the second quarter of each year using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step test. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit (RU) with its book value, including goodwill. If the fair value of the RU exceeds its book value, goodwill is considered not impaired and the second step of the impairment test is unnecessary. If the book value of the RU exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the RU's goodwill with the book value of that goodwill. If the book value of the RU's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The fair value of the RU is allocated to all of the assets and liabilities of that unit as if the RU had been acquired in a business combination and the fair value of the RU was the purchase price paid to acquire the RU.

The estimate of fair value of the Company's RUs is determined using various valuation techniques, including using the combination of the market approach and the income approach. The market approach, which contains Level 2 inputs, utilizes readily available market valuation

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multiples to estimate fair value. The income approach is a valuation technique that utilizes the discounted cash flow (DCF) method, which includes Level 3 inputs. Under the DCF method, the fair value of the RU reflects the present value of the projected earnings that will be generated by each RU after taking into account the revenues and expenses associated with the asset, the relative risk that the cash flows will occur, the contribution of other assets, and an appropriate discount rate to reflect the value of the invested capital. Cash flows are estimated for future periods based upon historical data and projections by management.

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At September 30, 2011, the Company had recorded goodwill in the amount of \$355.9 million. The Company performed its annual impairment tests of its unamortized goodwill balance as of May 31, 2011, and these tests did not indicate any impairment. The fair value of the RUs substantially exceeds the carrying value.

The fair value of the Company's long-term debt and obligations under capital leases is not significantly different from its carrying value.

Note 3 Supplementary Balance Sheet Information*Cash and Cash Equivalents*

The Company maintains accounts outside the United States denominated in currencies other than the U.S. dollar. All amounts in domestic accounts are denominated in U.S. dollars.

Cash and cash equivalent balances are summarized as follows:

<i>(in thousands)</i>	September 30, 2011	December 31, 2010
Cash and cash equivalents in domestic accounts	\$ 222,957	347,734
Cash and cash equivalents in foreign accounts	57,756	47,061
Total	\$ 280,713	394,795

At September 30, 2011 and December 31, 2010, the Company had approximately \$19.0 million and \$29.9 million, respectively, in Money Market accounts that had an original maturity date of 90 days or less. The Company considers cash equivalents to be short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity at the time of purchase that they present insignificant risk of changes in value because of change in interest rates.

Prepaid Expenses and Other Current Assets

Significant components of prepaid expenses and other current assets are summarized as follows:

<i>(in thousands)</i>	September 30, 2011	December 31, 2010
Prepaid expenses	\$ 24,796	15,421
Income taxes receivable	12,724	12,977
Supplies inventory	9,653	7,138
Other	46,551	42,312
Total	\$ 93,724	77,848

Contract Acquisition Costs, net

Significant components of contract acquisition costs, net of accumulated amortization, are summarized as follows:

<i>(in thousands)</i>	September 30, 2011	December 31, 2010
Conversion costs, net of accumulated amortization of \$105.2 million and \$90.9 million at 2011 and 2010, respectively	\$ 88,976	80,521
Payments for processing rights, net of accumulated amortization of \$181.6 million and \$169.8 million at 2011 and 2010, respectively	73,499	85,730

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Total	\$	162,475	166,251
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Amortization expense related to conversion costs, which is recorded in cost of services, was \$5.0 million and \$4.6 million for the three months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, amortization related to conversion costs was \$14.3 million and \$12.6 million, respectively.

Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was \$3.8 million and \$3.6 million for the three months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, amortization related to payments for processing rights was \$11.7 million and \$14.0 million, respectively.

During the nine months ended September 30, 2011, the Company recognized an impairment loss related to payments for processing rights of \$750,000 and an impairment loss related to conversion costs of \$48,000.

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Significant components of other current liabilities are summarized as follows:

<i>(in thousands)</i>	September 30, 2011	December 31, 2010
Accrued expenses	\$ 34,348	29,999
Deferred revenues	29,110	34,184
Dividends payable	13,333	13,634
Accrued income taxes		2,920
Other	33,568	30,303
 Total	 \$ 110,359	 111,040

Note 4 Long-Term Debt

Refer to Note 13 of the Company's audited financial statements for the year ended December 31, 2010, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (SEC), for a discussion regarding long-term debt.

Note 5 Comprehensive Income

For the three months ended September 30, comprehensive income is summarized below:

<i>(in thousands)</i>	\$160,684 Three months ended September 30, 2011			\$160,684 Three months ended September 30, 2010		
	TSYS	Noncontrolling	Total	TSYS	Noncontrolling	Total
	Shareholders	Interests		Shareholders	Interests	
Net income (loss)	\$ 58,148	(460)	\$ 57,688	\$ 45,743	3,963	\$ 49,706
Other comprehensive income (OCI), net of tax:						
Foreign currency translation adjustments	(9,439)	195	(9,244)	13,600	903	14,503
Change in accumulated OCI related to postretirement healthcare plans	1,156		1,156	(181)		(181)
 Total	 \$ 49,865	 (265)	 \$ 49,600	 \$ 59,162	 4,866	 \$ 64,028

For the nine months ended September 30, comprehensive income is summarized below:

<i>(in thousands)</i>	\$160,684 Nine months ended September 30, 2011			\$160,684 Nine months ended September 30, 2010		
	TSYS	Noncontrolling	Total	TSYS	Noncontrolling	Total
	Shareholders	Interests		Shareholders	Interests	
Net income	\$ 160,684	1,064	\$ 161,748	\$ 146,773	7,230	\$ 154,003
OCI, net of tax:						
Foreign currency translation adjustments	1,843	854	2,697	(2,750)	798	(1,952)
Change in accumulated OCI related to postretirement healthcare plans	793		793	(548)		(548)

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Total	\$ 163,320	1,918	\$ 165,238	\$ 143,475	8,028	\$ 151,503
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The income tax effects allocated to and the cumulative balance of accumulated other comprehensive income (loss) are as follows:

<i>(in thousands)</i>	Beginning Balance December 31, 2010	Pretax Amount	Tax Effect	Net-of-Tax Amount	Ending Balance September 30, 2011
Foreign currency translation adjustments	\$ (1,242)	4,079	(2,236)	1,843	\$ 601
Change in accumulated OCI related to postretirement healthcare plans	(1,343)	1,238	(445)	793	(550)
Total	\$ (2,585)	5,317	(2,681)	2,636	\$ 51

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Consistent with its overall strategy of pursuing international investment opportunities, TSYS adopted the permanent reinvestment exception under ASC 740, *Income Taxes*, with respect to future earnings of certain foreign subsidiaries. Its decision to permanently reinvest foreign earnings offshore means TSYS will no longer allocate taxes to foreign currency translation adjustments associated with these foreign subsidiaries accumulated in OCI.

Note 6 Share-Based Compensation

The Company's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC, contains a discussion of the Company's share-based compensation plans and policy.

Share-Based Compensation

TSYS's share-based compensation costs are included as expenses and classified as cost of services and selling, general, and administrative expenses. TSYS does not include amounts associated with share-based compensation as costs capitalized as software development and contract acquisition costs, as these awards are typically granted to individuals not involved in capitalizable activities. For the three months ended September 30, 2011, share-based compensation was \$4.0 million, compared to \$3.8 million for the same period in 2010. Included in the \$4.0 million amount for 2011 and \$3.8 million amount for 2010 is approximately \$1.4 million related to expensing the fair value of stock options. For the nine months ended September 30, 2011, share-based compensation was \$12.7 million, compared to \$11.7 million for the same period in 2010. Included in the \$12.7 million amount for 2011 and \$11.7 million amount for 2010 is approximately \$5.2 million and \$4.9 million, respectively, related to expensing the fair value of stock options.

Nonvested and Performance Share Awards

During the first nine months of 2011, the Company issued 212,773 shares of TSYS common stock with a market value of \$3.8 million to certain key employees and non-management members of its Board of Directors. The grants to certain key employees were issued under nonvested stock bonus awards for services to be provided in the future by such officers and employees. The grants to the Board of Directors were fully vested on the date of grant. The market value of the TSYS common stock at the date of issuance is amortized as compensation expense over the vesting period of the awards.

During the first nine months of 2010, the Company issued 197,186 shares of TSYS common stock with a market value of \$3.1 million to certain key employees and non-management members of its Board of Directors under nonvested stock bonus awards for services to be provided in the future by such officers, directors and employees. The market value of the TSYS common stock at the date of issuance is amortized as compensation expense over the vesting period of the awards.

As of September 30, 2011, there was approximately \$7.2 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a remaining weighted average period of 1.7 years.

On March 15, 2011, TSYS authorized a total grant of 263,292 performance shares to certain key executives with a performance based vesting schedule (2011 performance shares). These 2011 performance shares have a 2011-2013 performance period for which the Compensation Committee established two performance goals: revenues before reimbursable items and income from continuing operations and, if such goals are attained in 2013, the performance shares will vest, up to a maximum of 200% of the total grant. Compensation expense for the award is measured on the grant date based on the quoted market price of TSYS common stock. The Company will estimate the probability of achieving the goals through the performance period and will expense the award on a straight-line basis.

On March 31, 2010, TSYS authorized a total grant of 279,831 performance shares to certain key executives with a performance based vesting schedule (2010 performance shares). These 2010 performance shares have a 2010-2012 performance period for which the Compensation Committee established two performance goals: revenues before reimbursable items and income from continuing operations and, if such goals are attained in 2012, the performance shares will vest, up to a maximum of 200% of the total grant. Compensation expense for the award is measured on the grant date based on the quoted market price of TSYS common stock. The Company will estimate the probability of achieving the goals through the performance period and will expense the award on a straight-line basis.

As of September 30, 2011, there was approximately \$5.0 million of total unrecognized compensation cost related to the 2010 and 2011 performance shares compensation arrangements. That cost is expected to be recognized until the end of 2013.

During the first nine months of 2008, TSYS authorized a total grant of 182,816 shares of nonvested stock to two key executives with a performance schedule (2008 performance shares). These 2008 performance shares have seven one-year performance periods (2008-2014) during

each of which the Compensation Committee establishes an earnings per share goal and, if such goal is attained

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during any performance period, 20% of the performance shares will vest, up to a maximum of 100% of the total grant. Compensation expense for each year's award is measured on the grant date based on the quoted market price of TSYS common stock and is expensed on a straight-line basis for the year.

As of September 30, 2011, there was approximately \$220,000 of total unrecognized compensation cost related to the 2008 grant of nonvested performance share-based compensation arrangements. That cost is expected to be recognized over the remainder of 2011.

Stock Option Awards

During the first nine months of 2011, the Company granted 716,508 stock options to key TSYS executive officers. The average fair value of the option grant was \$5.78 per option and was estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions: exercise price of \$17.61; risk-free interest rate of 2.96%; expected volatility of 30.0%; expected term of 8.5 years; and dividend yield of 1.59%. The grant will vest over a period of 3 years.

On April 30, 2010, the Company granted 1.4 million stock options to key TSYS executive officers that are performance- and/or market conditions-based. These stock options will vest and become exercisable only if the stock price is at least a specified percentage above the grant date stock price on April 30, 2013 or TSYS reaches a specified EPS goal by December 31, 2012. Given the market conditions component, TSYS evaluated the impact using the Monte Carlo simulation to value these awards and ultimately determined that the impact was minimal. The average fair value of the option grants was \$3.48 per option and was estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions: exercise price of \$16.19; risk-free interest rate of 2.07%; expected volatility of 30.0%; expected term of 4.0 years; and dividend yield of 1.79%.

During the first nine months of 2010, the Company also granted 736,389 stock options to key TSYS executive officers. The average fair value of the option grant was \$5.33 per option and was estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions: exercise price of \$15.66; risk-free interest rate of 3.77%; expected volatility of 30.0%; expected term of 8.6 years; and dividend yield of 1.79%. The grant will vest over a period of 3 years.

As of September 30, 2011, there was approximately \$6.4 million of total unrecognized compensation cost related to TSYS stock options that is expected to be recognized over a remaining weighted average period of 1.8 years.

Note 7 Income Taxes

TSYS is the parent of an affiliated group that files a consolidated U.S. Federal income tax return and most state and foreign income tax returns on a separate entity basis. In the normal course of business, the Company is subject to examinations by these taxing authorities unless statutory examination periods lapse. TSYS is no longer subject to U.S. Federal income tax examinations for years before 2008 and with a few exceptions, the Company is no longer subject to income tax examinations from state, local or foreign authorities for years before 2005. There are currently no Federal tax examinations in progress. However, a number of tax examinations are in progress by the relevant foreign and state tax authorities. Although TSYS is unable to determine the ultimate outcome of these examinations, TSYS believes that its reserve for uncertain tax positions relating to these jurisdictions for such years is adequate.

TSYS' effective tax rate attributable to continuing operations was 29.4% and 36.5% for the three months ended September 30, 2011 and 2010, respectively. TSYS' effective income tax rate attributable to continuing operations for the nine months ended September 30, 2011 was 31.2%, compared to 36.0% for the same period in 2010. The decreased rate during the September 30, 2011 period was mostly due to changes in discrete items, changes in the jurisdictional sources of income and reflects the benefit of certain tax incentives offered to United States companies conducting certain activities within the United States.

TSYS continuously evaluates its ability to realize its deferred tax assets. Pursuant to such evaluations, TSYS established a valuation allowance in the amount of \$5.1 million related to our international operations and released valuation allowances in the amount of \$4.5 million related to our international operations during the nine months ended September 30, 2011.

TSYS adopted the provisions of ASC 740 on January 1, 2007. This interpretation prescribed a recognition threshold and measurement attribute for the financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken in a tax return. The amount of unrecognized tax benefits increased by \$2.2 million during the nine months ended September 30, 2011.

TSYS recognizes potential interest and penalties related to the underpayment of income taxes as income tax expense in the condensed consolidated statements of income. Gross accrued interest and penalties on unrecognized tax benefits totaled \$0.7 million and \$1.1 million as of

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September 30, 2011 and December 31, 2010, respectively. The total amounts of unrecognized income tax benefits as of September 30, 2011 and December 31, 2010 that, if recognized, would affect the effective tax rates are \$5.9 million and \$4.2 million (net of the Federal benefit on state tax issues), respectively, which include interest and penalties of \$0.5 million and \$1.0 million. TSYS does not expect any material changes to its calculation of uncertain tax positions during the next twelve months.

Table of Contents**Note 8 Segment Reporting and Major Customers**

The Company reports selected information about operating segments in accordance with ASC 280, *Segment Reporting*. The Company's segment information reflects the information that the chief operating decision maker (CODM) uses to make resource allocations and strategic decisions. The CODM at TSYS consists of the chairman of the board and chief executive officer, the president and the four senior executive vice presidents.

TSYS provides electronic payment processing and other services to card-issuing and merchant acquiring institutions in the United States and internationally through online accounting and electronic payment processing systems.

On May 2, 2011, TSYS completed its acquisition of all of the outstanding common stock of TermNet Merchant Services, Inc. (TermNet), an Atlanta-based merchant acquirer. TermNet's financial results are included in the Merchant Services segment.

North America Services includes electronic payment processing services and other services provided from within the North America region. International Services includes electronic payment processing and other services provided from outside the North America region. Merchant Services includes electronic processing and other services provided to merchant acquiring institutions. Corporate administration expenses, such as finance, legal, human resources, mergers and acquisitions and investor relations, that exist in all operating segments are accumulated and categorized as Corporate Administration.

Operating Segments (in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues before reimbursable items				
North America Services	\$ 206,087	192,900	599,451	610,271
International Services	96,140	82,249	277,337	233,299
Merchant Services	93,220	95,034	272,780	243,695
Intersegment revenues	(5,286)	(6,991)	(16,553)	(18,673)
Revenues before reimbursable items from external customers	\$ 390,161	363,192	1,133,015	1,068,592
Total revenues				
North America Services	\$ 243,899	231,547	708,360	722,585
International Services	99,891	85,327	288,271	242,706
Merchant Services	122,933	125,178	361,774	336,402
Intersegment revenues	(6,976)	(8,816)	(21,673)	(24,107)
Revenues from external customers	\$ 459,747	433,236	1,336,732	1,277,586
Depreciation and amortization				
North America Services	\$ 19,996	19,523	59,387	58,817
International Services	12,847	10,143	36,515	27,335
Merchant Services	8,772	9,725	27,232	30,516
Corporate Administration	753	663	2,269	2,255
Total depreciation and amortization	\$ 42,368	40,054	125,403	118,923
Segment operating income				
North America Services	\$ 68,016	52,645	187,284	188,650
International Services	8,279	12,305	29,426	35,260
Merchant Services	27,398	31,439	80,029	72,662
Corporate Administration	(22,513)	(17,475)	(64,001)	(58,117)
Operating income	\$ 81,180	78,914	232,738	238,455

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Total assets	At September 30, 2011	At December 31, 2010
North America Services	\$ 1,609,814	1,632,882
International Services	439,927	408,880
Merchant Services	475,722	460,750
Intersegment assets	(676,413)	(550,251)
Total assets	\$ 1,849,050	1,952,261

Revenues by Geographic Area

Revenues for North America Services and Merchant Services include electronic payment processing and other services provided from the United States to clients domiciled in the United States or other countries. Revenues for International Services include electronic payment processing and other services provided from facilities outside the United States to clients based predominantly outside the United States.

The following geographic data presents revenues based on the domicile of the Company's customers.

<i>(in millions)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
United States	\$ 308.0	301.4	897.9	906.1
Europe*	71.8	62.8	209.7	183.7
Canada	47.8	42.5	138.2	116.9
Japan*	20.0	16.1	55.7	43.1
Mexico	2.2	2.0	6.3	5.5
Other	9.9	8.4	28.9	22.3
Total	\$ 459.7	433.2	1,336.7	1,277.6

* Revenues are impacted by movements in foreign currency exchange rates. Refer to the discussion under Revenues in the Results of Operations.

The following table reconciles geographic revenues to revenues by operating segment based on the domicile of the Company's customers.

<i>(in millions)</i>	\$187.1					
	Three months ended September 30,					
	North America Services		International Services		Merchant Services	
	2011	2010	2011	2010	2011	2010
United States	\$ 185.4	176.8			122.6	124.6
Europe	0.2	0.2	71.6	62.6		
Canada	47.7	42.4			0.1	0.1
Japan			20.0	16.1		
Mexico	2.2	2.0				
Other	2.6	2.4	7.2	5.8	0.1	0.2
Total	\$ 238.1	223.8	98.8	84.5	122.8	124.9

	\$187.1					
	Nine months ended September 30,					
	North America Services		International Services		Merchant Services	
	2011	2010	2011	2010	2011	2010
United States	\$ 185.4	176.8			122.6	124.6
Europe	0.2	0.2	71.6	62.6		
Canada	47.7	42.4			0.1	0.1
Japan			20.0	16.1		
Mexico	2.2	2.0				
Other	2.6	2.4	7.2	5.8	0.1	0.2
Total	\$ 238.1	223.8	98.8	84.5	122.8	124.9

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<i>(in millions)</i>	2011	2010	2011	2010	2011	2010
United States	\$ 537.6	571.8			360.3	334.3
Europe	0.5	0.6	209.2	183.1		
Canada	137.9	116.5			0.3	0.4
Japan			55.7	43.1		
Mexico	6.3	5.5				
Other	7.9	6.8	20.4	14.6	0.6	0.9
Total	\$ 690.2	701.2	285.3	240.8	361.2	335.6

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The Company maintains property and equipment, net of accumulated depreciation and amortization, in the following geographic areas:

<i>(in millions)</i>	At September 30, 2011	At December 31, 2010
United States	\$ 195.0	203.8
Europe	53.6	58.3
Japan	10.9	11.3
Other	27.0	26.7
Total	\$ 286.5	300.1

Major Customers

For the three months ended September 30, 2011, the Company had one major customer which accounted for approximately 11.6%, or \$53.4 million, of total revenues. For the three months ended September 30, 2010, this major customer accounted for approximately 12.9%, or \$55.7 million, of total revenues. For the nine months ended September 30, 2011, the Company had one major customer which accounted for approximately 12.0% , or \$160.0 million, of total revenues. For the nine months ended September 30, 2010, this major customer accounted for approximately 13.1%, or \$167.0 million, of total revenues. Revenues from major customers for the periods reported are primarily attributable to the North America Services and Merchant Services segments.

Note 9 Supplementary Cash Flow Information*Nonvested Awards*

During the first nine months of 2011, the Company issued shares of common stock to certain key employees, and during the first nine months of 2010, the Company issued shares of common stock to certain key employees and non-management members of its Board of Directors. The grants to certain key employees were issued under nonvested stock bonus awards for services to be provided in the future by such officers and employees. The grants to the Board of Directors were fully vested on the date of grant. Refer to Note 6 for more information.

Equipment and Software Acquired Under Capital Lease Obligations

The Company acquired equipment and software under capital lease obligations in the amount of \$5.7 million during the first nine months of 2011 related to storage and other peripheral hardware. The Company acquired equipment and software under capital lease obligations in the amount of \$15.5 million during the first nine months of 2010 related to storage and other peripheral hardware.

Note 10 Legal Proceedings*General*

The Company is subject to various legal proceedings and claims and is also subject to information requests, inquiries and investigations arising out of the ordinary conduct of its business. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that TSYS determines to be both probable and reasonably estimable in accordance with ASC 450, Contingencies. In the opinion of management, based on current knowledge and in part upon the advise of legal counsel, all matters not specifically discussed below are believed to be adequately covered by insurance, or, if not covered, the possibility of losses from such matters are believed to be remote or such matters are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably.

Electronic Payment Systems Matter

On July 8, 2011, TSYS Acquiring Solutions, L.L.C., a wholly owned subsidiary of TSYS (TSYS Acquiring), entered into a settlement agreement (the Agreement) with Electronic Payment Systems LLC (EPS) to resolve all claims between the parties alleged in the previously disclosed litigation in the United States District Court for the District of Arizona (Civil Action No. CV09-00155-PHX-JAT and Civil Action No. CV10-01060-PHX-DGC). The Agreement provides for the payment by TSYS of \$6.2 million and the provision by TSYS of certain processing for EPS. EPS has agreed to migrate all of its merchants off of the TSYS Acquiring system within 30 months from the date of the Agreement and

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TSYS Acquiring will terminate processing for EPS on that date. The Agreement provides for dismissal of the litigation and the matters pending with the Federal Communications Commission and contains mutual releases by the parties.

Table of Contents**Note 11 Guarantees and Indemnifications**

The Company has entered into processing and licensing agreements with its clients that include intellectual property indemnification clauses. The Company generally agrees to indemnify its clients, subject to certain exceptions, against legal claims that TSYS' services or systems infringe on certain third party patents, copyrights or other proprietary rights. In the event of such a claim, the Company is generally obligated to hold the client harmless and pay for related losses, liabilities, costs and expenses, including, without limitation, court costs and reasonable attorney's fees. The Company has not made any indemnification payments pursuant to these indemnification clauses. In addition, the Company has indemnification obligations to Synovus Financial Corp. pursuant to the disaffiliation and related agreements entered into by the parties in connection with the corporate spin-off of TSYS from Synovus Financial Corp.

The Company has not recorded a liability for guarantees or indemnities in the accompanying condensed consolidated balance sheets, since neither a range nor a maximum amount of potential future payments under such guarantees and indemnities is determinable.

Note 12 Business Combinations***TermNet Merchant Services, Inc.***

On May 2, 2011, TSYS completed its acquisition of all of the outstanding common stock of TermNet, an Atlanta-based merchant acquirer, for \$42 million in cash. TermNet provides merchant services to qualified merchants serving a diverse merchant base of over 18,000 merchants. The acquisition of TermNet expands the Company's presence in the merchant acquiring industry. The results of operations for TermNet have been included in the Company's results beginning May 2, 2011, and are included in the Merchant Services segment. The goodwill of \$29.1 million recorded arises largely from synergies and economies of scale expected to be realized from combining the operations of TSYS and TermNet. Goodwill recognized in the acquisition of TermNet is not deductible for income tax purposes.

The following table summarizes the consideration paid for TermNet and the recognized amounts of assets acquired and liabilities assumed effective May 2, 2011:

<i>(in thousands)</i>	
<u>Preliminary recognized amounts of identifiable assets acquired and liabilities assumed:</u>	
Cash and restricted cash	\$ 2,691
Accounts receivable, net	10,253
Other assets	1,516
Identifiable intangible assets	11,740
Goodwill	29,106
Accounts payable	(5,561)
Accrued compensation	(2,683)
Deferred income tax liability	(4,506)
Other liabilities	(556)
Total consideration	\$ 42,000

The fair value of accounts receivable, accounts payable, accrued compensation, and other liabilities approximates the carrying amount of those assets and liabilities at the acquisition date. The fair value of accounts receivable due under agreements with customers is \$10.3 million. The gross amount due under the agreements is \$10.4 million, of which approximately \$100,000 is expected to be uncollectible. Of the \$42 million in consideration paid for TermNet, \$8.4 million has been placed in escrow for a period of 18 months to secure certain claims that may be brought against the escrowed consideration by TSYS pursuant to the merger agreement. Consideration is contingent and may be returned to the Company pursuant to indemnification commitments made by, in general, the shareholders of TermNet related to, among other things, a breach of the representations and warranties made in the merger agreement, possible excess merchant chargebacks, and losses arising out of certain asset dispositions and lease terminations. Such indemnification commitments are recognized as a possible asset receivable and measured at fair value. Based upon the probability of various possible outcomes related to the indemnification commitments, TSYS has determined that the fair value of any receivable asset would be immaterial. The maximum amount of contingent consideration returnable to the Company related to certain indemnification commitments made by TermNet is limited to the consideration held in escrow. The maximum amount of contingent consideration returnable to the Company related to fundamental representations and warranties made by TermNet is unlimited.

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Identifiable intangible assets acquired in the TermNet acquisition include customer relationships, channel relationships, and non-compete agreements. The identifiable intangible assets had no significant estimated residual value. These intangible assets are being amortized over their estimated useful lives of 2 to 10 years based on the pattern of expected future economic benefit, which approximates a straight-line basis over the useful lives of the assets. The fair value of the acquired identifiable intangible assets of \$11.7 million was estimated using the income approach (discounted cash flow and relief from royalty methods) and cost approach. The fair values and useful lives of the identified intangible assets were primarily determined using forecasted cash flows, which included estimates for certain assumptions such as revenues, expenses, attrition rates, and royalty rates. The estimated fair value of identifiable intangible assets acquired in the acquisition of TermNet and the related estimated weighted average useful lives are as follows:

	Fair Value (in millions)	Weighted Average Useful Lives
Customer relationships	\$ 10.0	7.0 years
Channel relationships	1.6	10.0 years
Non-compete agreements	0.1	2.0 years
 Total acquired identifiable intangible assets	 \$ 11.7	 7.3 years

The fair value measurement of the identifiable intangible assets is based on significant inputs that are not observable in the market and therefore, represents a Level 3 measurement as defined in ASC 820. Key assumptions include (a) cash flow projections based on market participant and internal data, (b) a discount rate of 14%, (c) a pre-tax royalty rate range of 3-10%, (d) an attrition rate of 20%, (e) an effective tax rate of 36%, and (f) a terminal value based on a long-term sustainable growth rate of 3%.

In connection with the TermNet acquisition, TSYS incurred \$192,000 in acquisition-related costs primarily related to professional legal, finance, and accounting costs. These costs were expensed as incurred and are included in selling, general, and administrative expenses in the income statement for the nine months ended September 30, 2011.

TSYS Merchant Solutions

On March 1, 2010, TSYS announced the signing of an Investment Agreement with First National Bank of Omaha (FNBO) to form a new joint venture company, First National Merchant Solutions (FNMS). Refer to Note 24 of the Company's audited financial statements for the year ended December 31, 2010, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC, for more information on the acquisition of TSYS Merchant Solutions (TMS).

On January 4, 2011, TSYS announced it had acquired the remaining 49-percent interest in FNMS, effective January 1, 2011, from FNBO. The entity was rebranded as TMS.

Pro forma Results of Operations

The pro forma revenue and earnings of TermNet are not material to the consolidated financial statements. The amounts of TMS revenue and earnings included in TSYS consolidated income statement for the three and nine months ended September 30, 2011, and the pro forma revenue and 100-percent of the earnings of the combined entity had the acquisition date been January 1, 2010 are:

(in thousands)	Revenue	Net Income Attributable to TSYS Common Shareholders	Basic EPS Attributable to TSYS Common Shareholders	Diluted EPS Attributable to TSYS Common Shareholders
Quarter-to-Date				
Actual from 7/1/2011-9/30/2011	\$ 459,747	\$ 58,148	\$ 0.30	\$ 0.30
Actual from 7/1/2010-9/30/2010	433,236	45,743	0.23	0.23
Supplemental pro forma for 7/1/2010-9/30/2010	433,236	48,084	0.24	0.24

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<i>(in thousands)</i>	Revenue	Net Income Attributable to TSYS Common Shareholders	Basic EPS Attributable to TSYS Common Shareholders	Diluted EPS Attributable to TSYS Common Shareholders
<u>Year-to-Date</u>				
Actual from 1/1/2011-9/30/2011	\$ 1,336,732	\$ 160,684	\$ 0.83	\$ 0.83
Actual from 1/1/2010-9/30/2010	1,277,586	146,773	0.74	0.74
Supplemental pro forma for 1/1/2010-9/30/2010	1,305,253	153,803	0.78	0.78

Table of Contents**Note 13 Earnings Per Share**

In June 2008, the FASB issued authoritative guidance under ASC 260, *Earnings Per Share*. The guidance under ASC 260 holds that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities as defined in ASC 260, and therefore should be included in computing earnings per share (EPS) using the two-class method.

The two-class method is an earnings allocation method for computing EPS when an entity's capital structure includes two or more classes of common stock or common stock and participating securities. It determines EPS based on dividends declared on common stock and participating securities and participation rights of participating securities in any undistributed earnings.

The following table illustrates basic and diluted EPS under the guidance of ASC 260 for the three months ended September 30, 2011 and 2010:

<i>(in thousands, except per share data)</i>	Three months ended September 30, 2011		Three months ended September 30, 2010	
	Common Stock	Participating Securities	Common Stock	Participating Securities
Basic EPS:				
Net income	\$ 58,148		45,743	
Less income allocated to nonvested awards	(208)	208	(226)	226
Net income allocated to common stock for EPS calculation (a)	\$ 57,940	208	45,517	226
Average common shares outstanding (b)	190,706	691	195,679	974
Basic EPS (a)/(b)	\$ 0.30	0.30	0.23	0.23
Diluted EPS:				
Net income	\$ 58,148		45,743	
Less income allocated to nonvested awards	(208)	208	(225)	225
Net income allocated to common stock for EPS calculation (c)	\$ 57,940	208	45,518	225
Average common shares outstanding	190,706	691	195,679	974
Increase due to assumed issuance of shares related to common equivalent shares outstanding	376		78	
Average common and common equivalent shares outstanding (d)	191,082	691	195,757	974
Diluted EPS (c)/(d)	\$ 0.30	0.30	0.23	0.23

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The following table illustrates basic and diluted EPS under the guidance of

ASC 260 for the nine months ended September 30, 2011 and 2010:

<i>(in thousands, except per share data)</i>	Nine months ended September 30, 2011		Nine months ended September 30, 2010	
	Common Stock	Participating Securities	Common Stock	Participating Securities
Basic EPS:				
Net income	\$ 160,684		146,773	
Less income allocated to nonvested awards	(592)	592	(738)	738
Net income allocated to common stock for EPS calculation (a)	\$ 160,092	592	146,035	738
Average common shares outstanding (b)	191,823	715	196,060	996
Basic EPS (a)/(b)	\$ 0.83	0.83	0.74	0.74
Diluted EPS:				
Net income	\$ 160,684		146,773	
Less income allocated to nonvested awards	(591)	591	(739)	739
Net income allocated to common stock for EPS calculation (c)	\$ 160,093	591	146,034	739
Average common shares outstanding	191,823	715	196,060	996
Increase due to assumed issuance of shares related to common equivalent shares outstanding	392		86	
Average common and common equivalent shares outstanding (d)	192,215	715	196,146	996
Diluted EPS (c)/(d)	\$ 0.83	0.83	0.74	0.74

The diluted EPS calculation excludes stock options and nonvested awards that are convertible into 4.7 million and 4.0 million common shares for the three and nine months ended September 30, 2011, respectively and excludes 8.6 million common shares for the three and nine months ended September 30, 2010 because their inclusion would have been anti-dilutive.

Note 14 Redeemable Noncontrolling Interests

In connection with the purchase of the remaining 49-percent interest in TMS, the Company sold the rights to the FNMS tradename valued at \$4.5 million, and recorded a gain on the sale of the tradename of \$1.5 million. The Company bought the remaining 49-percent interest for \$174.1 million, and paid net cash of \$169.6 million (\$174.1 million less \$4.5 million for tradename sold). With the purchase, the Company eliminated the redeemable noncontrolling interest of \$144.6 million and recorded a reduction of approximately \$29.4 million to additional paid-in capital. The Company recorded a deferred tax asset that was created from excess tax goodwill and recorded an increase to additional paid-in capital.

Note 15 Discontinued Operations

The Company sold certain assets and liabilities of TSYS POS Systems and Services (TPOS) on September 30, 2010. The sale of certain assets and liabilities of TPOS was the result of management's decision during the third quarter of 2010 to divest non-strategic businesses and focus resources on core products and services. The Company had a pre-tax goodwill impairment of \$2.2 million (approximately \$1.5 million after-tax) related to TPOS, which was included in discontinued operations as part of the sale. TPOS was part of the Merchant Services segment and was not considered a significant component of the segment. This transaction resulted in the assumed lease of its Sacramento, California, facility and the closure of its Columbus, Georgia-based distribution center.

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TPOS was not a significant component of the Merchant Services segment, nor TSYS consolidated results.

In accordance with the provisions of ASC 205, Presentation of Financial Statements, the Company determined the TPOS business became a discontinued operation in the third quarter of 2010.

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The following table presents the summarized results of discontinued operations for the three and nine months ended September 30, 2010:

<i>(in thousands)</i>	Three months ended September 30, 2010	Nine months ended September 30, 2010
Revenues before reimbursable items	\$ 2,757	7,506
Total revenues	2,757	7,506
Operating loss	(499)	(1,671)
Income taxes	(168)	(556)
Loss from discontinued operations, net of tax	(331)	(1,116)
Loss on disposition, net of tax	(2,132)	(2,048)

The Unaudited Condensed Consolidated Statements of Cash Flows include TPOS through the date of disposition and are not considered material.

Note 16 Subsequent Events

Management performed an evaluation of the Company's activity the date these unaudited financial statements were issued, and has concluded that there are no significant subsequent events requiring disclosure.

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Item 2 Management's Discussion and Analysis of Financial****Condition and Results of Operations****Financial Overview**

Total System Services, Inc.'s (TSYS or the Company's) revenues are derived from providing payment processing, merchant services and related services to financial and nonfinancial institutions, generally under long-term processing contracts. The Company's services are provided through three of the Company's operating segments: North America Services, International Services and Merchant Services.

Through the Company's North America Services and International Services segments, TSYS processes information through its cardholder systems to financial and nonfinancial institutions throughout the United States and internationally. The Company's North America Services segment provides these services in the United States to clients in the United States, Canada, Mexico and the Caribbean. The Company's International Services segment provides services in England, Japan and Brazil to clients in the United States, Europe, Asia Pacific and Brazil. The Company's Merchant Services segment provides merchant services to financial institutions and other organizations, predominately in the United States.

On January 1, 2011, TSYS acquired the remaining 49-percent interest in First National Merchant Solutions (FNMS), from First National Bank of Omaha (FNBO). FNMS was rebranded as TSYS Merchant Solutions (TMS).

On May 2, 2011, TSYS completed its acquisition of all of the outstanding common stock of TermNet Merchant Services, Inc. (TermNet), an Atlanta-based merchant acquirer.

For a detailed discussion regarding the Company's Operations, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

A summary of the financial highlights for 2011, as compared to 2010, is provided below:

<i>(in millions)</i>	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Percent Change	2011	2010	Percent Change
Total revenues	\$ 459.7	433.2	6.1%	\$ 1,336.7	1,277.6	4.6%
Operating income	81.2	78.9	2.9	232.7	238.5	(2.4)
Net income attributable to TSYS common shareholders	58.1	45.7	27.1	160.7	146.8	9.5

Financial Review

This Financial Review provides a discussion of critical accounting policies and estimates, related party transactions and off-balance sheet arrangements. This Financial Review also discusses the results of operations, financial position, liquidity and capital resources of TSYS and outlines the factors that have affected its recent earnings, as well as those factors that may affect its future earnings.

Critical Accounting Policies and Estimates

There have been no material changes other than what is noted below to the Company's critical accounting policies, estimates and assumptions or the judgments affecting the application of those estimates and assumptions in 2011. For a detailed discussion regarding the Company's critical accounting policies and estimates, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, and for a detailed discussion regarding the Company's risk factors, see Item 1A: Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements, an update to Accounting Standards Codification (ASC) Topic 605, Revenue Recognition, and formerly known as EITF 08-1, Revenue Arrangements with Multiple Deliverables. ASU 2009-13 amends ASC 650-25 to revise the guidance for determining whether multiple deliverables in an arrangement can be separated for revenue recognition and how the consideration should be allocated. It eliminates the

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use of the residual method of revenue recognition and the requirement that all undelivered elements have vendor-specific objective evidence (VSOE) or third-party evidence (TPE) of fair value before an entity can separate its deliverables for revenue recognition. The revised guidance requires the allocation of vendor consideration to each deliverable using the relative selling price method. The selling price for each deliverable is based on VSOE if available, TPE if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Effective January 1, 2011, the Company adopted the provisions of ASU 2009-13 on a prospective basis for all new and materially modified arrangements.

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Related Party Transactions

The Company believes the terms and conditions of transactions between the Company and its equity investments, Total System Services de México, S.A. de C.V. (TSYS de México) and China UnionPay Data Co., Ltd. (CUP Data), are comparable to those which could have been obtained in transactions with unaffiliated parties. The Company's margins with respect to related party transactions are comparable to margins recognized in transactions with unrelated third parties.

Off-Balance Sheet Arrangements

Operating Leases: As a method of funding its operations, TSYS employs noncancelable operating leases for computer equipment, software and facilities. These leases allow the Company to provide the latest technology while avoiding the risk of ownership. Neither the assets nor obligations related to these leases are included on the balance sheet.

Contractual Obligations: The total liability (with state amounts tax effected) for uncertain tax positions under ASC 740, *Income Taxes*, at September 30, 2011 is \$6.7 million. Refer to Note 7 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information on income taxes. The Company is not able to reasonably estimate the amount by which the liability will increase or decrease over time; however, at this time, the Company does not expect a significant payment related to these reserves within the next year.

As indicated in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, total contractual cash obligations at December 31, 2010 were estimated at \$757.5 million. These contractual cash obligations include lease payments and software arrangements.

Results of Operations

Revenues

The Company generates revenues by providing transaction processing and other payment-related services. The Company's pricing for transactions and services is complex. Each category of revenue has numerous fee components depending on the types of transactions or services provided. TSYS reviews its pricing and implements pricing changes on an ongoing basis. In addition, standard pricing varies among its regional businesses, and such pricing can be customized further for customers through tiered pricing of various thresholds for volume activity. TSYS revenues are based upon transactional information accumulated by its systems or reported by its customers. The Company's revenues are impacted by currency translation of foreign operations, as well as doing business in the current economic environment.

Total revenues increased \$26.5 million and \$59.1 million, or 6.1% and 4.6%, during the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010. The increase in revenues for the three and nine months ended September 30, 2011 includes an increase of \$4.9 million and \$17.1 million, respectively, related to the effects of currency translation of foreign-based subsidiaries and branches. The Company has included reimbursements received for out-of-pocket expenses as revenues and expenses. The largest reimbursable expense item for which TSYS is reimbursed by clients is postage. The Company's reimbursable items are impacted with changes in postal rates and changes in the volumes of all mailing activities by its clients. Reimbursable items for the three and nine months ended September 30, 2011 were \$69.5 million and \$203.7 million, a decrease of \$458,000 or 0.7% and \$5.3 million or 2.5%, respectively, compared to \$70.0 million and \$209.0 million for the same periods last year. Excluding reimbursable items, revenues increased \$27.0 million and \$64.4 million, or 7.4% and 6.0%, during the three and nine months ended September 30, 2011 compared to the same period in 2010.

Major Customers

A significant amount of the Company's revenues is derived from long-term contracts with large clients, including a major customer. TSYS derives revenues from providing various processing and other services to these clients, including processing of consumer and commercial accounts, as well as revenues for reimbursable items. The loss of the Company's major customer could have a material adverse effect on the Company's financial position, results of operations and cash flows.

In June 2009, Bank of America announced that it formed a new joint venture to provide merchant services. TSYS provides accounting, settlement, authorization and other services to Bank of America. TSYS provides a number of additional services to Bank of America, including commercial card processing, small business card processing and card production services. Approximately 11.6% and 12.9% of TSYS' total revenues for the three months ended September 30, 2011 and 2010, respectively, were attributed to Bank of America. Approximately 12.0% and 13.1% of TSYS' total revenues for the nine months ended September 30, 2011 and 2010, respectively, were attributed to Bank of America. Revenues from the major customer for the periods reported are primarily attributable to the North America Services segment and Merchant Services segment.

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In November 2010, TSYS and Bank of America agreed to a new merchant services agreement, during which TSYS expects merchant services revenues from Bank of America to decline as Bank of America transitions its services to its new joint venture. The

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loss of Bank of America as a merchant services client is not expected to have a material adverse effect on TSYS' financial position, results of operations or cash flows. Approximately 44% of the total revenues derived from providing merchant services to Bank of America are attributable to reimbursable items for the three months ended September 30, 2011 and 2010, which are provided at no margin. Approximately 44% and 46% of the total revenues derived from providing merchant services to Bank of America are attributable to reimbursable items for the nine months ended September 30, 2011 and 2010, respectively, which are provided at no margin.

TSYS' services are provided through three of its operating segments: North America Services, International Services and Merchant Services.

Operating Segments

A summary of each segment's results follows:

North America Services

The North America Services segment provides payment processing and related services to clients based primarily in North America. This segment has two major customers.

Below is a summary of the North America Services segment:

<i>(in millions)</i>	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Percent Change	2011	2010	Percent Change
Total revenues	\$ 243.9	231.5	5.3%	\$ 708.4	722.6	(2.0)%
External revenues	238.1	223.8	6.4	690.2	701.2	(1.6)
Operating income	68.0	52.6	29.2	187.3	188.7	(0.7)
Operating margin	27.9%	22.7%		26.4%	26.1%	
Key indicators:						
AOF				341.9	293.8	16.4
Transactions	1,872.8	1,658.3	12.9	5,294.7	4,680.2	13.1

* Note: Segment operating margins do not include expenses associated with Corporate Administration. Refer to Note 8 for more information on operating segments.

This segment has many long-term customer contracts with card issuers providing account processing and output services for printing and embossing items. These contracts generally require advance notice prior to the end of the contract if a client chooses not to renew. Additionally, some contracts may allow for early termination upon the occurrence of certain events such as a change in control. The termination fees paid upon the occurrence of such events are designed primarily to cover balance sheet exposure related to items such as capitalized conversion costs or client incentives associated with the contract and, in some cases, may cover a portion of lost future revenue and profit. Although these contracts may be terminated upon certain occurrences, the contracts provide the segment with a steady revenue stream since a vast majority of the contracts are honored through the contracted expiration date.

On October 1, 2011, TSYS and Capital One Financial Corporation ("Capital One") amended the current Processing Services Agreement between the parties to, among other things, extend the term during which TSYS will continue to provide processing services for Capital One's North American portfolio of consumer and small business credit card accounts until September 30, 2017.

The increase in total segment external revenues for the three months ended September 30, 2011, as compared to the same period in 2010, is the result of new business and organic growth, which was partially offset by a decrease in revenues associated with client portfolio deconversions. The decline in total segment external revenues for the nine months ended September 30, 2011, as compared to the same period in 2010, is the result of a decrease in revenues associated with client portfolio deconversions and a decrease in termination fees of \$32.7 million, which was partially offset by new business and organic growth.

International Services

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The International Services segment provides issuer and merchant card solutions to financial institutions and other organizations primarily based outside the North America region. Changes in revenues and operating profit in this segment are derived from retaining and growing the core business and improving the overall cost structure. Growing the core business comes primarily from an increase in account usage, growth from existing clients and sales to new clients and the related account conversions. This segment has one major customer.

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Below is a summary of the International Services segment:

<i>(in millions)</i>	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Percent Change	2011	2010	Percent Change
Total revenues	\$ 99.9	85.3	17.1%	\$ 288.3	242.7	18.8%
External revenues	98.8	84.5	16.9	285.3	240.8	18.5
Operating income	8.3	12.3	(32.7)	29.4	35.3	(16.5)
Operating margin	8.3%	14.4%		10.2%	14.5%	
Key indicators:						
AOF				50.5	45.4	11.3
Transactions	360.5	322.9	11.7	1,027.2	902.0	13.9

* Note: Segment operating margins do not include expenses associated with Corporate Administration. Refer to Note 8 for more information on operating segments.

This segment has many long-term customer contracts with card issuers providing account processing and output services for printing and embossing items. These contracts generally require advance notice prior to the end of the contract if a client chooses not to renew. Additionally, some contracts may allow for early termination upon the occurrence of certain events such as a change in control. The termination fees paid upon the occurrence of such events are designed primarily to cover balance sheet exposure related to items such as capitalized conversion costs or client incentives associated with the contract and, in some cases, may cover a portion of lost future revenue and profit. Although these contracts may be terminated upon certain occurrences, the contracts provide the segment with a steady revenue stream since a vast majority of the contracts are honored through the contracted expiration date.

The increase in total segment external total revenues for the three and nine months ended September 30, 2011, as compared to 2010, is driven by \$8.2 million and \$24.3 million of new business and organic growth, respectively, and \$4.8 million and \$16.6 million increase related to the impact of foreign currency translation, respectively.

On March 11, 2011, an earthquake struck off the northeast coast of Japan, triggering a tsunami. TSYS operations in Japan were not directly impacted by the natural disaster.

Merchant Services

The Merchant Services segment provides merchant processing and related services to clients based primarily in the United States. Merchant services revenues are derived from providing processing services, acquiring solutions, related systems and integrated support services to merchant acquirers and merchants. Revenues from merchant services include processing all payment forms including credit, debit, prepaid, electronic benefit transfer and electronic check for merchants of all sizes across a wide array of market verticals. Merchant services include authorization and capture of transactions; clearing and settlement of transactions; information reporting services related to transactions; merchant billing services; and point-of-sale equipment sales and service. This segment has one major customer.

With the acquisitions of TMS and TermNet, the Company has expanded its service offerings to include merchant support and underwriting, and business and value-added services, as well as Visa- and Mastercard-branded prepaid cards for businesses of any size. Ranked as the 10th-largest merchant acquirer in the United States by dollar volume (The Nilson Report, March 2011), TMS has a 57-year history in the acquiring industry with more than 300,000 merchant outlets in its diverse portfolio.

Below is a summary of the Merchant Services segment:

<i>(in millions)</i>	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Percent Change	2011	2010	Percent Change
Total revenues	\$ 122.9	125.2	(1.8)%	\$ 361.8	336.4	7.5%
External revenues	122.8	124.9	(1.6)	361.2	335.6	7.6
Operating income	27.4	31.4	(12.9)	80.0	72.7	10.1
Operating margin	22.3%	25.1%		22.1%	21.6%	

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Key indicator:

POS Transactions	1,263.3	1,344.9	(6.1)	3,739.1	4,079.7	(8.3)
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* Note: Segment operating margins do not include expenses associated with Corporate Administration. Refer to Note 8 for more information on operating segments.

The decrease in total segment external revenues for the three months ended September 30, 2011, as compared to the same period in 2010, is the result of price compression and deconversions, which was partially offset by a \$5.0 million net increase for

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acquisitions. The increase in total segment external revenues for the nine months ended September 30, 2011, as compared to the same period in 2010, is the result of a \$38.7 million net increase for acquisitions, partially offset by price compression and deconversions.

Merchant Services segment's results are driven by the authorization and capture transactions processed at the point-of-sale and clearing and settlement transactions. This segment's authorization and capture transactions are primarily through dial-up or Internet connectivity.

Refer to the discussion of Bank of America under Major Customers.

Operating Expenses

The Company's operating expenses consist of cost of services and selling, general and administrative expenses. Cost of services describes the direct expenses incurred in performing a particular service for our customers, including the cost of direct labor expense in putting the service in saleable condition. Selling, general and administrative expenses are incurred in selling or marketing and for the direction of the enterprise as a whole, including accounting, legal fees, officers' salaries, investor relations and mergers and acquisitions.

The Company's cost of services were \$321.5 million and \$935.0 million during the three and nine months ended September 30, 2011, respectively, an increase of 6.2% and 5.2%, compared to \$302.7 million and \$889.1 million for the same periods last year. During the first nine months of 2010, TSYS implemented a plan that reduced its workforce through attrition and job elimination. As part of the workforce reduction, the Company incurred approximately \$2.6 million in severance payments.

The Company's selling, general and administrative expenses were \$57.1 million and \$169.0 million during the three and nine months ended September 30, 2011, respectively, an increase of 10.6% and 12.6%, compared to \$51.6 million and \$150.0 million for the same periods last year. The increase is the result of the impact of the acquisitions of TMS and TermNet.

As a result of the acquisition of TMS, TSYS incurred \$0.1 million during the nine months ended September 30, 2011 of acquisition related costs. As a result of the acquisition of TMS, TSYS incurred \$0.2 million and \$3.9 million during the three and nine months ended September 30, 2010, respectively, of acquisition related costs.

Federal legislation was recently enacted which makes extensive changes to the current system of health care insurance and benefits. The Company has reviewed the legislation and, based upon information available, expects the impact of the legislation on 2011 to be approximately \$2.2 million.

Operating Income

Operating income increased 2.9% and decreased 2.4% for the three and nine months ended September 30, 2011, respectively, over the same periods in 2010. The Company's operating profit margin for the three and nine months ended September 30, 2011 was 17.7% and 17.4%, respectively, compared to 18.2% and 18.7% for the same periods last year. TSYS' operating margin increased for the three months ended September 30, 2011, as compared to the same period in 2010, as the result of an increase in revenues associated with growth in accounts on file and transactions. TSYS' operating margin decreased for the nine months ended September 30, 2011, as compared to the same periods in 2010, as the result of the loss of revenues associated with deconverted clients, including \$32.7 million in termination fees, and an increase in employment expenses.

Nonoperating Income (Expense)

Interest income for the three months ended September 30, 2011 was \$155,000, an increase of \$27,000, compared to \$128,000 for the same period in 2010. Interest income for the nine months ended September 30, 2011 was \$442,000, a decrease of \$56,000, compared to \$498,000 for the same period in 2010. The changes in interest income is primarily attributable to the decline in interest rates and cash available for investing.

Interest expense for the three months ended September 30, 2011 was \$794,000, an increase of \$5,000 compared to \$789,000 for the same period in 2010. Interest expense for the nine months ended September 30, 2011 was \$2.4 million, an increase of \$313,000 compared to \$2.1 million for the same period in 2010. The increase in interest expense in 2011 compared to 2010 relates to additional debt borrowings during the fourth quarter of 2010.

For the three months ended September 30, 2011 and 2010, the Company recorded a translation loss of approximately \$2.2 million and a translation gain of \$102,000, respectively, related to intercompany loans and foreign-denominated balance sheet accounts. For the nine months

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ended September 30, 2011 and 2010, the Company recorded a translation loss of approximately \$2.8 million and \$34,000, respectively, related to intercompany loans and foreign-denominated balance sheet accounts.

Occasionally, the Company will provide financing to its subsidiaries in the form of an intercompany loan, which is required to be repaid in U.S. dollars. For its subsidiaries whose functional currency is something other than the U.S. dollar, the translated balance of

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the financing (liability) is adjusted upward or downward to match the U.S. dollar obligation (receivable) on the Company's financial statements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation.

The Company records foreign currency translation adjustments on foreign-denominated balance sheet accounts. The Company maintains several cash accounts denominated in foreign currencies, primarily in Euros and British Pounds Sterling. As the Company translates the foreign-denominated cash balances into U.S. dollars, the translated cash balance is adjusted upward or downward depending upon the foreign currency exchange movements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation in the Company's statements of income. As those cash accounts have increased, the upward or downward adjustments have increased.

The balance of the Company's foreign-denominated cash accounts subject to risk of translation gains or losses at September 30, 2011 was approximately \$7.5 million, the majority of which is denominated in Euros and British Pounds Sterling.

Income Taxes

During 2011, TSYS recorded a deferred tax asset as a result of the purchase of the remaining 49% of TMS. Refer to Note 12 of the Notes to the Unaudited Condensed Consolidated Financial Statements for more information about the acquisition of TMS.

TSYS's effective income tax rate attributable to continuing operations for the three months ended September 30, 2011 was 29.4%, compared to 36.5% for the same period in 2010. TSYS's effective income tax rate attributable to continuing operations for the nine months ended September 30, 2011 was 31.2%, compared to 36.0% for the same period in 2010. The reduction in the September 30, 2011 rate reflects the impact of the Company availing itself of the benefit of certain incentives offered to United States companies performing certain activities within the United States. The calculation of the effective tax rate is income taxes adjusted for income taxes associated with noncontrolling interest and equity income divided by TSYS's pretax income adjusted for noncontrolling interests in consolidated subsidiaries' net income and equity pre-tax earnings of its equity investments. Refer to Note 7 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information on income taxes.

In the normal course of business, TSYS is subject to examinations from various tax authorities. These examinations may alter the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions.

TSYS continually monitors and evaluates the potential impact of current events and circumstances on the estimates and assumptions used in the analysis of its income tax positions, and, accordingly, TSYS's effective tax rate may fluctuate in the future.

No provision for U.S. federal and state incomes taxes has been made in our consolidated financial statements for those non-U.S. subsidiaries whose earnings are considered to be reinvested. The amount of undistributed earnings considered to be reinvested which may be subject to tax upon distribution was approximately \$45.6 million at September 30, 2011. A distribution of these non-U.S. earnings in the form of dividends, or otherwise, would subject the Company to both U.S. federal and state income taxes, as adjusted for non-U.S. tax credits, and withholding taxes payable to the various non-U.S. countries. Determination of the amount of any unrecognized deferred income tax liability on these undistributed earnings is not practicable.

Equity in Income of Equity Investments

The Company has two equity investments located in Mexico and China that are accounted for under the equity method of accounting. TSYS's share of income from its equity in equity investments was \$4.6 and \$1.1 million for the three months ended September 30, 2011 and 2010, respectively. TSYS's share of income from its equity in equity investments was \$7.5 million and \$4.4 million for the nine months ended September 30, 2011 and 2010, respectively. The increase in TSYS's share of income from its equity in equity investments for the three and nine months ended September 30, 2011, as compared to 2010, is due to timing of renewal contracts and new business.

Net Income

Net income for the three months ended September 30, 2011 increased 16.1%, or \$8.0 million, to \$57.7 million, compared to \$49.7 million for the same period in 2010. Net income for the nine months ended September 30, 2011 increased 5.0%, or \$7.7 million, to \$161.7 million, compared to \$154.0 million for the same period in 2010.

Net income attributable to TSYS common shareholders for the three months ended September 30, 2011 increased 27.1%, or \$12.4 million, to \$58.1 million, or basic and diluted earnings per share of \$0.30, compared to \$45.7 million, or basic and diluted earnings per share of \$0.23, for the same period in 2010. Net income attributable to TSYS common shareholders for the nine months ended September 30, 2011 increased 9.5%,

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or \$13.9 million, to \$160.7 million, or basic and diluted earnings per share of \$0.83, compared to \$146.8 million, or basic and diluted earnings per share of \$0.74, for the same period in 2010.

Projected Outlook for 2011

As compared to 2010, TSYS expects its 2011 income from continuing operations available to TSYS common shareholders to increase by 11%-12%, its EPS from continuing operations to increase by 14%-15%, its revenues before reimbursable items to increase

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by 5%-6% and its total revenues to increase by 4%-5%, based on the following assumptions: (1) there will be no significant movements in LIBOR and TSYS will not make any significant draws on the remaining balance of its revolving credit facility; (2) there will be no significant movement in foreign currency exchange rates related to TSYS business for the remainder of 2011; (3) TSYS will not incur significant expenses associated with the conversion of new large clients or acquisitions, or any significant impairment of goodwill or other intangibles; (4) there will be no deconversions of large clients during the remainder of the year; and (5) the economy will not worsen during the remainder of 2011.

Financial Position, Liquidity and Capital Resources

The Condensed Consolidated Statements of Cash Flows detail the Company's cash flows from operating, investing and financing activities. TSYS primary method of funding its operations and growth has been cash generated from current operations and the use of leases. TSYS has occasionally used borrowed funds to supplement financing of capital expenditures and acquisitions.

Cash Flows From Operating Activities

<i>(in thousands)</i>	Nine months ended September 30,	
	2011	2010
Net income	\$ 161,748	154,003
Depreciation and amortization	125,403	119,107
Other noncash items and charges, net	34,116	29,918
Net change in current and other assets and current and other liabilities	(23,602)	(24,767)
Disposal of subsidiary		1,641
Net cash provided by operating activities	\$ 297,665	279,902

TSYS main source of funds is derived from operating activities, specifically net income. The increase in 2011 in net cash provided by operating activities was primarily the result of the increase in net income and other noncash charges.

Net change in current and other assets and current and other liabilities include accounts receivable, prepaid expenses, other current assets and other assets, accounts payable, accrued salaries and employee benefits, other current liabilities and other liabilities. The change in accounts receivable at September 30, 2011, as compared to December 31, 2010, is the result of timing of collections compared to billings. The change in accounts payable and other liabilities for the same period is the result of the payments of vendor invoices and the timing of payments.

Cash Flows From Investing Activities

<i>(in thousands)</i>	Nine months ended September 30,	
	2011	2010
Cash used in acquisitions, net of cash acquired	\$ (45,309)	(148,531)
Additions to contract acquisition costs	(22,506)	(42,774)
Purchases of property and equipment, net	(18,121)	(29,848)
Additions to internally developed computer software	(13,331)	(15,220)
Additions to licensed computer software from vendors	(10,033)	(27,224)
Purchase of private equity investments	(1,573)	
Proceeds from sale of tradename	4,500	
Proceeds from disposition, net of expense paid and cash disposed		4,224
Net cash used in investing activities	\$ (106,373)	(259,373)

The major uses of cash for investing activities have been acquisitions, the addition of property and equipment, primarily computer equipment, the purchase of licensed computer software and internal development of computer software, and investments in contract acquisition costs associated with obtaining and servicing new or existing clients. The major uses of cash for investing activities in 2011 was for the acquisition of all of TermNet's outstanding stock, the acquisition of the remaining 49-percent interest in FNMS, and additions to contract acquisition costs, equipment, licensed computer software from vendors and internally developed computer software. The main source of cash for investing

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activities in 2011 was for the sale of a tradename associated with the purchase of the remaining 49-percent interest in TMS. The major uses of cash for investing activities in 2010 was for the acquisition of a 51-percent ownership in TMS, and additions to contract acquisition costs, equipment, licensed computer software from vendors and internally developed computer software.

Contract Acquisition Costs

TSYS makes cash payments for processing rights, third-party development costs and other direct salary-related costs in connection with converting new customers to the Company's processing systems. The Company's investments in contract acquisition costs were \$6.5 million for the three months ended September 30, 2011, bringing the total for 2011 to \$22.5 million compared to \$42.8 million for the nine months ended September 30, 2010.

Table of Contents*Purchase of Private Equity Investments*

On May 31, 2011, the Company entered into a limited partnership agreement in connection with its agreement to invest in an Atlanta-based venture capital fund focused exclusively on investing in technology-enabled financial services companies. Pursuant to the limited partnership agreement, the Company has committed to invest up to \$20 million in the fund so long as its ownership interest in the fund does not exceed 50%. In September 2011, the Company made investments in the fund of \$1.6 million.

Cash Flows From Financing Activities

<i>(in thousands)</i>	Nine months ended September 30,	
	2011	2010
Purchase of noncontrolling interests	\$ (174,050)	
Repurchase of common stock	(73,361)	(46,228)
Dividends paid on common stock	(40,616)	(41,432)
Principal payments on long-term debt borrowings and capital lease obligations	(21,052)	(11,938)
Other	1,360	404
Net cash used in financing activities	\$ (307,719)	(99,194)

The major use of cash from financing activities has been the purchase of noncontrolling interests, repurchase of common stock and payment of dividends. The major uses of cash from financing activities in 2011 was for the purchase of noncontrolling interests, payment of dividends and the repurchase of common stock. The major use of cash from financing activities in 2010 was for the repurchase of common stock and the payment of dividends.

Borrowings

For a detailed discussion regarding the Company's borrowings, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, and for a detailed discussion regarding the Company's long-term debt, see Note 13 Long-term Debt and Capital Lease Obligations in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Stock Repurchase Plan

On April 20, 2010, TSYS announced a stock repurchase plan to purchase up to 10 million shares of TSYS stock. The shares may be purchased from time to time over the next two years at prices considered attractive to the Company. On May 3, 2011, TSYS announced that its Board had approved an increase in the number of shares that may be repurchased under its current share repurchase plan from up to 10 million shares to up to 15 million shares of TSYS stock. The expiration date of the plan was also extended to April 30, 2013. Through September 30, 2011, the Company purchased 4.2 million shares for approximately \$72.9 million, at an average price of \$17.36. Through September 30, 2010, the Company purchased 3.1 million shares for approximately \$45.1 million, at an average price of \$14.60.

Dividends

Dividends on common stock of \$13.5 million were paid during the three months ended September 30, 2011, bringing the total for 2011 to \$40.6 million compared to \$41.4 million paid during the nine months ended September 30, 2010.

On October 25, 2011, TSYS announced that its Board of Directors approved a 42.9% increase in the regular quarterly dividend payable on the Company's common stock from \$0.07 per share to \$0.10 per share, payable on January 3, 2012 to shareholders of record as of the close of business on December 15, 2011.

Significant Noncash Transactions

Refer to Note 9 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information about supplementary cash flow information.

Foreign Operations

TSYS operates internationally and is subject to adverse movements in foreign currency exchange rates. TSYS does not enter into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes; however, the Company continues to analyze potential hedging instruments to safeguard it from significant foreign currency translation risks.

TSYS maintains operating cash accounts outside the United States. Refer to Note 3 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information on cash and cash equivalents. TSYS has adopted the permanent reinvestment exception under ASC 740 with respect to future earnings of certain foreign subsidiaries. While some of the foreign cash is available to repay intercompany financing arrangements, remaining amounts are not presently available to fund domestic operations and obligations without paying a significant amount of taxes upon its repatriation. Demand on the Company's cash has increased as a result of its strategic initiatives. TSYS funds these initiatives through a balance of internally generated cash, external sources of capital, and, when advantageous, access to foreign cash in a tax efficient manner. Where local regulations limit an efficient

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intercompany transfer of amounts held outside of the U.S., TSYS will continue to utilize these funds for local liquidity needs. Under current law, balances available to be repatriated to the U.S. would be subject to U.S. federal income taxes, less applicable foreign tax credits. TSYS has provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered permanently reinvested outside of the U.S. TSYS utilizes a variety of tax planning and financing strategies with the objective of having its worldwide cash available in the locations where it is needed.

Impact of Inflation

Although the impact of inflation on its operations cannot be precisely determined, the Company believes that by controlling its operating expenses, and by taking advantage of more efficient computer hardware and software, it can minimize the impact of inflation.

Working Capital

TSYS may seek additional external sources of capital in the future. The form of any such financing will vary depending upon prevailing market and other conditions and may include short-term or long-term borrowings from financial institutions or the issuance of additional equity and/or debt securities such as industrial revenue bonds. However, there can be no assurance that funds will be available on terms acceptable to TSYS. Management expects that TSYS will continue to be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future, as evidenced by TSYS' current ratio of 2.9:1. At September 30, 2011, TSYS had working capital of \$415.3 million compared to \$494.5 million at December 31, 2010.

Legal Proceedings

General

The Company is subject to various legal proceedings and claims and is also subject to information requests, inquiries and investigations arising out of the ordinary conduct of its business. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that TSYS determines to be both probable and reasonably estimable in accordance with ASC 450, Contingencies. In the opinion of management, based on current knowledge and in part upon the advice of legal counsel, all matters not specifically discussed below are believed to be adequately covered by insurance, or, if not covered, the possibility of losses from such matters are believed to be remote or such matters are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably.

Electronic Payment Systems Matter

On July 8, 2011, TSYS Acquiring Solutions, L.L.C., a wholly owned subsidiary of TSYS (TSYS Acquiring), entered into a settlement agreement (the Agreement) with Electronic Payment Systems LLC (EPS) to resolve all claims between the parties alleged in the previously disclosed litigation in the United States District Court for the District of Arizona (Civil Action No. CV09-00155-PHX-JAT and Civil Action No. CV10-01060-PHX-DGC). The Agreement provides for the payment by TSYS of \$6.2 million and the provision by TSYS of certain processing for EPS. EPS has agreed to migrate all of its merchants off of the TSYS Acquiring system within 30 months from the date of the Agreement and TSYS Acquiring will terminate processing for EPS on that date. The Agreement provides for dismissal of the litigation and the matters pending with the Federal Communications Commission and contains mutual releases by the parties.

Recent Accounting Pronouncements

The Company's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC, contains a discussion of recent accounting pronouncements and the expected impact on the Company's financial statements.

ASU 2011-08, Testing Goodwill for Impairment

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which amends ASC Topic 350, Intangibles—Goodwill and Other. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. The Company has determined the impact of adopting ASU 2011-08 on its financial position, results of operations and cash flows to be immaterial.

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ASU 2011-05, Presentation of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 amends ASC Topic 220, Comprehensive Income, and eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. An entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company has determined the impact of adopting ASU 2011-05 on its financial position, results of operations and cash flows to be immaterial.

ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S.GAAP and IFRSs

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs, to converge fair value measurement and disclosure guidance in US GAAP with the guidance in the International Accounting Standards Board's (IASB) concurrently issued IFRS 13, Fair Value Measurement. It is prospectively effective for interim and annual periods beginning after December 15, 2011, and early adoption is not permitted. The Company has determined the impact of adopting ASU 2011-04 on its financial position, results of operations and cash flows to be immaterial.

ASU 2009-13, Multiple-Deliverable Revenue Arrangement,

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, an update to ASC Topic 605, Revenue Recognition, and formerly known as EITF 08-1, Revenue Arrangements with Multiple Deliverables. ASU 2009-13 amends ASC 650-25 to revise the guidance for determining whether multiple deliverables in an arrangement can be separated for revenue recognition and how the consideration should be allocated. It eliminates the use of the residual method of revenue recognition and the requirement that all undelivered elements have vendor-specific objective evidence (VSOE) or third-party evidence (TPE) of fair value before an entity can separate its deliverables for revenue recognition. The revised guidance requires the allocation of vendor consideration to each deliverable using the relative selling price method. The selling price for each deliverable is based on VSOE if available, TPE if VSOE is not available, or best estimated selling price (ESP) if neither VSOE nor TPE is available. Effective January 1, 2011, the Company adopted the provisions of ASU 2009-13 on a prospective basis for all new and materially modified arrangements.

The Company's North America and International Services revenues are derived from long-term payment processing contracts with financial and nonfinancial institutions and are generally recognized as the services are performed. Payment processing services revenues are generated primarily from charges based on the number of accounts on file, transactions and authorizations processed, statements mailed, cards embossed and mailed and other processing services for cardholder accounts on file. Most of these contracts have prescribed annual revenue minimums, penalties for early termination, and service level agreements. Revenue is recognized as the services are performed, primarily on a per unit basis. Processing contracts generally range from three to ten years in length and provide for penalties for early termination. When providing payment processing services, the Company frequently enters into customer arrangements to provide multiple services that may also include conversion or implementation services, business process outsourcing services such as call center services, web-based services, and other payment processing-related services. Revenue for these services is generally recognized as they are performed on a per unit basis each month or ratably over the term of the contract.

The Company's Merchant Services revenues are derived from long-term processing contracts with large financial institutions, other merchant acquirers and merchant organizations which generally range from three to eight years and provide for penalties for early termination. Merchant services revenue is generated primarily from processing all payment forms including credit, debit, electronic benefits transfer and check truncation for merchants of all sizes across a wide array of retail market segments. The products and services offered include authorization and capture of electronic transactions, clearing and settlement of electronic transactions, information reporting services related to electronic transactions, merchant billing services, and point-of-sale terminal services. Revenue is recognized for merchant services as those services are performed, primarily on a per unit basis. When providing merchant processing services, the Company frequently enters into customer arrangements to provide multiple services that may also include conversion or implementation services, business process outsourcing services such as call center services, terminal services, and other merchant processing-related services. Revenue for these services is generally recognized as they are performed on a per unit basis each month or ratably over the term of the contract.

The Company recognizes revenues in accordance with the provisions of Staff Accounting Bulletin (SAB) No. 104. SAB No. 104 sets forth guidance as to when revenue is realized or realizable and earned when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been performed; (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. In many situations, the Company enters into arrangements

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with customers to provide conversion or implementation services in addition to processing services where the conversion or implementation services do not have standalone value. In these situations, the deliverables do not meet the criteria of ASC 605-25 for separation and the deliverables are combined as a single unit of accounting for revenue recognition. For these arrangements, conversion or implementation services revenue is recognized as the related processing services are performed, and revenue continues to be recognized in a single unit of accounting upon adoption of ASU 2009-13 in 2011.

The Company's other services generally have standalone value and constitute separate units of accounting for revenue recognition purposes. However, customer arrangements entered into prior to January 1, 2011 often included services for which sufficient objective and reliable evidence of fair value did not exist. In certain situations, sufficient objective and reliable evidence of fair value did not exist for multiple undelivered services, and the deliverables were combined and recognized as a single unit of accounting based on the proportional performance for the combined unit. Beginning on January 1, 2011, services in new or materially modified arrangements of this nature are now divided into separate units of accounting and revenue is allocated to each unit based on the relative selling price method. As the services in these arrangements are generally delivered over the same term with consistent patterns of performance, there is no change in the timing or pattern of revenue recognition upon adoption of ASU 2009-13.

In certain situations, VSOE existed for all but one of the shorter services (for which standalone value existed), and the Company allocated revenue to each of the deliverables under the residual method of accounting whereby the difference between the total arrangement consideration and VSOE for the undelivered services was allocated to the other service. While there is no change in the units of accounting for these arrangements, beginning on January 1, 2011, revenue for services in new or materially modified arrangements of this nature will be allocated based on the relative selling price method. The residual amount of revenue historically allocated to the shorter services in these arrangements is generally consistent with our best estimate of selling price for those services. In situations where this may not have been the case, services in these arrangements were delivered over the same term with consistent patterns of performance. Accordingly, there is no change in the pattern of revenue recognition and adoption of ASU 2009-13 is not expected to have a material effect on revenue recognition for these arrangements in future periods.

In many situations, VSOE exists for the Company's payment processing services and certain other processing-related services. The Company establishes VSOE of selling price using the priced charged when the same service is sold separately. In certain situations, the Company does not have sufficient VSOE based on its related accounting policy due to limited standalone sales of certain services for a particular group of customers, limited sales history for certain services, and/or disparity in pricing for a given service. In these situations, we considered whether sufficient TPE of selling price existed for the Company's services. TPE is established by evaluating similar or interchangeable competitor products or services in standalone sale to similarly situated customers. The Company typically is not able to determine TPE and has not used this measure of selling price due to the unique and proprietary nature of some of its services and the inability to reliably verify relevant standalone competitor prices. ESP has been established in these situations using limited standalone sales that do not meet the Company's criteria to establish VSOE, management pricing strategies, residual selling price data when VSOE exists for a group of elements, and margin objectives. Consideration is also given to market conditions including competitor pricing strategies and benchmarking studies.

The Company's multiple element arrangements may include one or more elements that are subject to other Topics including software revenue recognition and leasing guidance. The consideration for these multiple element arrangements is allocated to each group of deliverables—those subject to ASC 605-25 and those subject to other Topics based on the revised guidance in ASC 2009-13. Arrangement revenue for each group of deliverables is then further separated, allocated, and recognized based on applicable guidance.

The Company regularly reviews the evidence of selling price for its services and maintains internal controls over the establishment and updates of these estimates. There were no material changes in estimated selling price for its services during the quarter and the Company does not expect a material impact from changes in selling price in the foreseeable future.

If the Company were to apply the new revenue recognition guidance as if it had early adopted the guidance for the nine months ended September 30, 2010 and the year ended December 31, 2010, there would have been no material impact to revenue in the earlier periods. As previously disclosed, there were changes to the units of accounting and changes in the way arrangement consideration is allocated for certain types of the Company's arrangements; however, the adoption of ASU 2009-13 did not have a material impact on revenue for the nine months ended September 30, 2011 when compared to the revenue that would have been recognized under the guidance in effect prior to adoption of ASU 2009-13. The impact of adopting this guidance in future periods will depend on the nature of the Company's customer arrangements in those periods, including the nature of products and services included in those arrangements, the magnitude of revenue associated with certain deliverables in those arrangements, and the timing of delivery of the related products or services in those arrangements, among other considerations. While the impact in future periods is dependent on these factors and future go-to-market strategies, the Company does not currently expect the adoption of this guidance to have a material impact on the timing and pattern of revenue recognition in future periods. The Company does not expect this new guidance to impact future pricing practices or go-to-market strategies.

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Forward-Looking Statements

Certain statements contained in this filing which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). These forward-looking statements include, among others: (i) TSYS' expectation that the loss of Bank of America as a merchant services client will not have a material adverse affect on TSYS; (ii) TSYS' expectation that it will be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future; (iii) TSYS' earnings guidance for 2011 total revenues, revenues before reimbursable items, income from continuing operations and EPS from continuing operations; (iv) TSYS' belief with respect to lawsuits, claims and other complaints; (v) TSYS' expectation with respect to certain tax matters, and the assumptions underlying such statements. In addition, certain statements in future filings by TSYS with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of TSYS which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of TSYS or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as believes, anticipates, expects, intends, targeted, estimates, projects, plans, may, could, should, would, and similar expressions identify forward-looking statements but are not the exclusive means of identifying these statements.

These statements are based upon the current beliefs and expectations of TSYS' management and are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements. A number of important factors could cause actual results to differ materially from those contemplated by our forward-looking statements. Many of these factors are beyond TSYS' ability to control or predict. These factors include, but are not limited to:

movements in LIBOR are greater than expected and draws on the revolving credit facility are greater than expected;

TSYS incurs expenses associated with the signing of a significant client;

internal growth rates for TSYS' existing clients are lower than anticipated whether as a result of unemployment rates, card delinquencies and charge off rates or otherwise;

TSYS does not convert and deconvert clients' portfolios as scheduled;

adverse developments with respect to foreign currency exchange rates;

adverse developments with respect to entering into contracts with new clients and retaining current clients;

continued consolidation and turmoil in the financial services and other industries during 2011, including the merger of TSYS' clients with entities that are not TSYS processing clients, the sale of portfolios by TSYS' clients to entities that are not TSYS processing clients and the nationalization or seizure by banking regulators of TSYS' clients;

the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on TSYS and our clients;

adverse developments with respect to the credit card industry in general, including a decline in the use of cards as a payment mechanism;

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TSYS is unable to successfully manage any impact from slowing economic conditions or consumer spending;

the impact of potential and completed acquisitions, including the costs associated therewith and their being more difficult to integrate than anticipated;

the impact of the application of and/or changes in accounting principles;

TSYS inability to timely, successfully and cost-effectively improve and implement processing systems to provide new products, increased functionality and increased efficiencies;

TSYS inability to anticipate and respond to technological changes, particularly with respect to e-commerce;

changes occur in laws, rules, regulations, credit card association rules or other industry standards affecting TSYS and our clients that may result in costly new compliance burdens on TSYS and our clients and lead to a decrease in the volume and/or number of transactions processed;

successfully managing the potential both for patent protection and patent liability in the context of rapidly developing legal framework for expansive patent protection;

the material breach of security of any of our systems;

overall market conditions;

the loss of a major supplier;

the impact on TSYS business, as well as on the risks set forth above, of various domestic or international military or terrorist activities or conflicts;

other risk factors described in the Risk Factors and other sections of TSYS Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and other filings with the Securities and Exchange Commission; and

TSYS ability to manage the foregoing and other risks.

These forward-looking statements speak only as of the date on which they are made and TSYS does not intend to update any forward-looking statement as a result of new information, future developments or otherwise.

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Item 3 Quantitative and Qualitative Disclosures About Market Risk****Foreign Exchange Risk**

The Company is exposed to foreign exchange risk because it has assets, liabilities, revenues and expenses denominated in foreign currencies other than the U.S. dollar. These currencies are translated into U.S. dollars at current exchange rates, except for revenues, costs and expenses and net income, which are translated at the average exchange rate for each reporting period. Net exchange gains or losses resulting from the translation of assets and liabilities of foreign operations, net of tax, are accumulated in a separate section of shareholders' equity entitled accumulated other comprehensive income, net. The following represents the amount of other comprehensive gain (loss):

<i>(in millions)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Other comprehensive gain (loss)	\$ (9.4)	13.6	\$ 1.8	(2.8)

Currently, the Company does not use financial instruments to hedge exposure to exchange rate changes.

The following table presents the carrying value of the net assets of TSYS' foreign operations in U.S. dollars at September 30, 2011:

<i>(in millions)</i>	September 30, 2011
Europe	\$ 179.9
China	75.0
Cyprus	33.3
Japan	26.1
Other	5.6

TSYS records foreign currency translation adjustments associated with other balance sheet accounts. The Company maintains several cash accounts denominated in foreign currencies, primarily in Euros and British Pounds Sterling. As TSYS translates the foreign-denominated cash balances into U.S. dollars, the translated cash balance is adjusted upward or downward depending upon the foreign currency exchange movements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation in the statements of income. As those cash accounts have increased, the upward or downward adjustments have increased. TSYS recorded a net translation loss of approximately \$2.2 million and \$2.8 for the three and nine months ended September 30, 2011, respectively, relating to the translation of cash and other balance sheet accounts. The balance of the Company's foreign-denominated cash accounts subject to risk of translation gains or losses at September 30, 2011 was approximately \$7.5 million, the majority of which was denominated in Euros and British Pounds Sterling.

The Company provides financing to its international operation in Europe through an intercompany loan that requires the operation to repay the financing in U.S. dollars. The functional currency of the operation is the respective local currency. As it translates the foreign currency denominated financial statements into U.S. dollars, the translated balance of the financing (liability) is adjusted upward or downward to match the U.S. dollar obligation (receivable) on its financial statements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation.

The net asset account balance subject to foreign currency exchange rates between the local currencies and the U.S. dollar at September 30, 2011 was \$15.1 million. The net asset account balance includes cash and net accounts receivable.

The following table presents the potential effect on income before income taxes of hypothetical shifts in the foreign currency exchange rate between the local currencies and the U.S. dollar of plus-or-minus 100 basis points, 500 basis points and 1,000 basis points based on the net asset account balance of \$15.1 million at September 30, 2011.

Effect of Basis Point Change	
Increase in basis point of	Decrease in basis point of

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(in thousands)

	100	500	1,000	100	500	1,000
Effect on income before income taxes	\$ 151	756	1,511	(151)	(756)	(1,511)

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TOTAL SYSTEM SERVICES, INC.

Item 3 Quantitative and Qualitative Disclosures About Market Risk (continued)

Interest Rate Risk

TSYS is also exposed to interest rate risk associated with the investing of available cash and the use of debt. TSYS invests available cash in conservative short-term instruments and is primarily subject to changes in the short-term interest rates.

The Company's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC, contains a discussion of interest rate risk and the Company's debt obligations that are sensitive to changes in interest rates.

On December 21, 2007, the Company entered into a Credit Agreement with Bank of America N.A., as Administrative Agent, The Royal Bank of Scotland plc, as Syndication Agent, and other lenders. The Credit Agreement provides for a \$168 million unsecured five-year term loan to the Company and a \$252 million five-year unsecured revolving credit facility. The principal balance of loans outstanding under the credit facility bears interest at a rate of London Interbank Offered Rate (LIBOR) plus an applicable margin of 0.60%. Interest is paid on the last date of each interest period; however, if the period exceeds three months, interest is paid every three months after the beginning of such interest period.

On October 31, 2008, the Company's International Services segment obtained a credit agreement from a third party to borrow up to ¥2.0 billion, or approximately \$21 million, in a Yen-denominated three year loan to finance activities in Japan. The rate is LIBOR plus 80 basis points. The Company initially made a draw down of ¥1.5 billion, or approximately \$15.1 million. In January 2009, the Company made an additional draw down of ¥250 million, or approximately \$2.8 million. In April 2009, the Company made an additional draw down of ¥250 million, or approximately \$2.5 million.

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TOTAL SYSTEM SERVICES, INC.

Item 4 Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based on this evaluation, the chief executive officer and chief financial officer concluded that as of September 30, 2011, TSYS disclosure controls and procedures were designed and effective to ensure that the information required to be disclosed by TSYS in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and were also designed and effective to ensure that the information required to be disclosed in the reports that TSYS files or submits under the Exchange Act is accumulated and communicated to management, as appropriate to allow timely decisions regarding required disclosure.

No change in TSYS internal control over financial reporting occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Part II Other Information**

Item 1 Legal Proceedings

For information regarding TSYS Legal Proceedings, refer to Note 10 of the Notes to Unaudited Condensed Consolidated Financial Statements which is incorporated by reference into this item.

Factors Item 1A Risk Factors

In addition to the other information set forth in this report, one should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect the Company's financial position, results of operations or cash flows. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company's financial position, results of operations or cash flows.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information regarding the Company's purchases of its common stock on a monthly basis during the three months ended September 30, 2011:

<i>(in thousands, except per share data)</i>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
Period				
July 2011			5,093	9,907
August 2011	2,200	\$ 14.60	7,293	7,707
September 2011			7,293	7,707
Total	2,200	\$ 14.60		

Item 6 Exhibits

a) Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document

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101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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TOTAL SYSTEM SERVICES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOTAL SYSTEM SERVICES, INC.

Date: November 4, 2011

by: /s/ Philip W. Tomlinson
Philip W. Tomlinson
Chairman of the Board and
Chief Executive Officer

Date: November 4, 2011

by: /s/ James B. Lipham
James B. Lipham
Senior Executive Vice President
and Chief Financial Officer

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TOTAL SYSTEM SERVICES, INC.

Exhibit Index

Exhibit	
Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document