UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q

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

For the quarterly period ended: **September 30, 2003**

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**

TSYS®

Total System Services, Inc.

(Exact name of registrant as specified in its charter)

Georgia	**58-1493818**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 First Avenue, 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 [X] No [ ]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

CLASS	OUTSTANDING AS OF: November 12, 2003
Common Stock, $.10 par value	**196,820,178**

TOTAL SYSTEM SERVICES, INC.

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TOTAL SYSTEM SERVICES, INC.
Part I – Financial Information
Consolidated Balance Sheets
(Unaudited)

		September 30, 2003	December 31, 2002
Assets			
Current assets:			
Cash and cash equivalents (includes $15.5 million and $84.5 million on deposit with a related party at 2003 and 2002, respectively)	$	**55,630,502**	109,171,206
Restricted cash (includes $5.5 million and $4.0 million on deposit with a related party at 2003 and 2002, respectively)		**5,575,158**	4,035,052
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of $9.3 million and $8.0 million at 2003 and 2002, respectively		**128,420,123**	121,439,387
Deferred income tax assets		**11,256,407**	8,785,539
Prepaid expenses and other current assets		**25,683,669**	22,547,590
Total current assets		**226,565,859**	265,978,774
Property and equipment, less accumulated depreciation and amortization of $131.4 million and $127.8 million at 2003 and 2002, respectively		**219,633,535**	120,835,260
Computer software, less accumulated amortization of $186.3 million and $149.6 million at 2003 and 2002, respectively		**211,846,433**	200,297,026
Contract acquisition costs		**128,231,228**	123,728,968
Equity investments		**61,810,154**	54,181,246
Goodwill, net		**29,620,054**	3,619,178
Other assets		**27,302,496**	14,227,058
Total assets	$	**905,009,759**	782,867,510

TOTAL SYSTEM SERVICES, INC.
Consolidated Balance Sheets (continued)
(Unaudited)

		September 30, 2003	December 31, 2002
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	$	**17,064,529**	10,365,836
Accrued salaries and employee benefits		**28,683,215**	43,314,882
Current portion of long-term debt and obligations under capital leases		**288,563**	68,110
Billings in excess of costs and profit on uncompleted contracts		**24,073,734**	-
Other current liabilities (includes $3.3 million and $2.9 million payable to related parties at 2003 and 2002, respectively)		**53,635,472**	60,232,889
Total current liabilities		**123,745,513**	113,981,717
Long-term debt and obligations under capital leases, excluding current portion		**224,230**	67,354
Other accounts payable		**-**	562,500
Deferred income tax liabilities		**88,799,575**	63,306,186
Total liabilities		**212,769,318**	177,917,757
Minority interest in consolidated subsidiary		**3,219,961**	2,743,863
Shareholders' equity:			
Common stock - $.10 par value. Authorized 600,000,000 shares; 197,504,087 and 197,254,087 issued at 2003 and 2002, respectively; 196,827,820 and 197,049,470 outstanding at 2003 and 2002, respectively		**19,750,409**	19,725,409
Additional paid-in capital		**38,371,115**	35,143,089
Accumulated other comprehensive income		**3,145,519**	1,052,897
Treasury stock		**(12,086,795)**	(3,316,703)
Retained earnings		**639,840,232**	549,601,198
Total shareholders' equity		**689,020,480**	602,205,890
Total liabilities and shareholders' equity	$	**905,009,759**	782,867,510

See accompanying Notes to Unaudited Consolidated Financial Statements.

TOTAL SYSTEM SERVICES, INC.
Consolidated Statements of Income
(Unaudited)

	Three months ended September 30, 2003	2002
Revenues:		
Electronic payment processing services (includes $4.7 million and $5.1 million from related parties for 2003 and 2002, respectively)	$ **179,447,316**	157,722,824
Other services (includes $1.9 million and $1.8 million from related parties for 2003 and 2002, respectively)	**30,926,861**	25,451,790
Revenues before reimbursable items	**210,374,177**	183,174,614
Reimbursable items (includes $2.1 million and $2.5 million from related parties for 2003 and 2002, respectively)	**55,740,647**	56,432,019
Total revenues	**266,114,824**	239,606,633
Expenses:		
Salaries and other personnel expense	**81,488,046**	78,968,153
Net occupancy and equipment expense	**51,043,016**	44,666,653
Other operating expenses (includes $2.3 million and $2.1 million to related parties for 2003 and 2002, respectively)	**28,943,581**	18,939,165
(Gain) loss on disposal of equipment, net	**698**	(63,666)
Expenses before reimbursable items	**161,475,341**	142,510,305
Reimbursable items	**55,740,647**	56,432,019
Total expenses	**217,215,988**	198,942,324
Operating income	**48,898,836**	40,664,309
Nonoperating income (expense):		
Interest income, net (includes $10,000 and $336,000 from related parties for 2003 and 2002, respectively)	**447,986**	723,178
Gain (loss) on foreign currency translation, net	**(245,653)**	2,150,244
Total nonoperating income (expense)	**202,333**	2,873,422
Income before income taxes, minority interest and equity in income of joint ventures	**49,101,169**	43,537,731
Income taxes	**17,508,835**	15,884,698
Minority interest in consolidated subsidiary's net income	**(625)**	(99,922)
Equity in income of joint ventures	**3,920,480**	5,262,411
Net income	$ **35,512,189**	32,815,522
Basic earnings per share	$ **0.18**	0.17
Diluted earnings per share	$ **0.18**	0.17
Weighted average common shares outstanding	**196,747,867**	197,049,470
Increase due to assumed issuance of shares related to stock options outstanding	**695,853**	308,621
Weighted average common and common equivalent shares outstanding	**197,443,720**	197,358,091

See accompanying Notes to Unaudited Consolidated Financial Statements.

TOTAL SYSTEM SERVICES, INC.
Consolidated Statements of Income
(Unaudited)

		Nine months ended September 30,	
		2003	2002
Revenues:			
Electronic payment processing services (includes $13.7 million and $14.2 million from related parties for 2003 and 2002, respectively)	$	**524,579,304**	454,458,222
Other services (includes $5.2 million and $5.2 million from related parties for 2003 and 2002, respectively)		**81,734,620**	81,096,921
Revenues before reimbursable items		**606,313,924**	535,555,143
Reimbursable items (includes $6.8 million and $7.4 million from related parties for 2003 and 2002, respectively)		**168,852,463**	173,580,235
Total revenues		**775,166,387**	709,135,378
Expenses:			
Salaries and other personnel expense		**241,184,158**	221,288,507
Net occupancy and equipment expense		**153,069,842**	130,615,183
Other operating expenses (includes $6.8 million and $7.0 million to related parties for 2003 and 2002, respectively)		**75,272,165**	68,803,542
Gain on disposal of equipment, net		**(34,691)**	(62,073)
Expenses before reimbursable items		**469,491,474**	420,645,159
Reimbursable items		**168,852,463**	173,580,235
Total expenses		**638,343,937**	594,225,394
Operating income		**136,822,450**	114,909,984
Nonoperating income (expense):			
Interest income, net (includes $494,500 and $810,000 from related parties for 2003 and 2002, respectively)		**2,299,359**	2,080,205
Gain on foreign currency translation, net		**915,949**	2,146,664
Total nonoperating income (expense)		**3,215,308**	4,226,869
Income before income taxes, minority interest and equity in income of joint ventures		**140,037,758**	119,136,853
Income taxes		**51,130,954**	43,295,312
Minority interest in consolidated subsidiary's net income		**(260,400)**	(132,741)
Equity in income of joint ventures		**12,908,774**	14,640,502
Net income	$	**101,555,178**	90,349,302
Basic earnings per share	$	**0.52**	0.46
Diluted earnings per share	$	**0.51**	0.46
Weighted average common shares outstanding		**196,832,455**	197,005,655
Increase due to assumed issuance of shares related to stock options outstanding		**493,589**	605,903
Weighted average common and common equivalent shares outstanding		**197,326,044**	197,611,558

See accompanying Notes to Unaudited Consolidated Financial Statements.

TOTAL SYSTEM SERVICES, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net income	$ **101,555,178**	90,349,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest in consolidated subsidiary's net income	**260,400**	132,741
Gain on foreign currency translation, net	**(915,949)**	(2,146,664)
Equity in income of joint ventures	**(12,908,774)**	(14,640,502)
Depreciation and amortization	**71,057,442**	52,884,204
Charges for bad debt and billing adjustments	**1,892,186**	3,405,410
Charges for transaction processing	**3,093,682**	5,665,643
Deferred income tax expense	**21,247,862**	2,331,917
Gain on disposal of equipment, net	**(34,691)**	(62,073)
(Increase) decrease in:		
Accounts receivable	**(3,949,898)**	(6,215,363)
Prepaid expenses and other assets	**(8,317,230)**	2,924,735
Increase (decrease) in:		
Accounts payable	**3,710,373**	(14,374,422)
Accrued salaries and employee benefits	**(14,659,464)**	(2,639,309)
Billings in excess of costs and profit on uncompleted contracts	**24,073,734**	-
Other current liabilities	**(16,398,801)**	20,555,685
Net cash provided by operating activities	**169,706,050**	138,171,304
Cash flows from investing activities:		
Purchase of property and equipment	**(113,516,913)**	(12,983,076)
Additions to purchased computer software	**(35,681,694)**	(22,658,928)
Additions to internally developed computer software	**(13,945,410)**	(21,572,646)
Proceeds from disposal of equipment	**68,093**	72,540
Cash acquired in acquisition	**4,442,163**	2,858,384
Cash used in acquisition	**(36,000,000)**	-
Dividends received from joint ventures	**5,277,523**	17,855,119
Increase in contract acquisition costs	**(17,903,802)**	(34,316,924)
Net cash used in investing activities	**(207,260,040)**	(70,745,531)

TOTAL SYSTEM SERVICES, INC.
Consolidated Statements of Cash Flows (continued)
(Unaudited)

	Nine months ended September 30,	
	2003	2002
Cash flows from financing activities:		
Purchase of common stock	**(9,485,289)**	-
Proceeds from issuance of long-term debt	**20,233,983**	-
Principal payments on long-term debt	**(20,233,983)**	-
Principal payments on capital lease obligations	**(147,519)**	(84,377)
Dividends paid on common stock	**(10,828,295)**	(9,324,147)
Proceeds from exercise of stock options	**3,929,297**	204,550
Net cash used in financing activities	**(16,531,806)**	(9,203,974)
Effect of exchange rate changes on cash and cash equivalents	**545,092**	(1,285,864)
Net (decrease) increase in cash and cash equivalents	$ **(53,540,704)**	56,935,935
Cash and cash equivalents at beginning of year	**109,171,206**	58,658,500
Cash and cash equivalents at end of period	$ **55,630,502**	115,594,435
Cash paid for interest	$ **65,520**	27,002
Cash paid for income taxes (net of refunds received)	$ **42,463,234**	25,842,373

Significant noncash transaction: In January 2002, the Company acquired TSYS Total Debt Management, Inc. through the issuance of 2,175,000 shares of common stock with a market value of $43.5 million.

See accompanying Notes to Unaudited Consolidated Financial Statements.

TOTAL SYSTEM SERVICES, INC.
Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements represent the accounts of Total System Services, Inc.® (TSYS® and the Company); its wholly owned subsidiaries, Columbus Depot Equipment Company℠ (CDEC℠), Columbus Productions, Inc.℠ (CPI), TSYS Canada, Inc.℠ (TCI), TSYS Total Debt Management, Inc. (TDM), ProCard, Inc. (ProCard), TSYS Japan Co., Ltd. (Japan Co.), Enhancement Services Corporation (ESC) and TSYS Technology Center, Inc. (TTC); and its majority owned foreign subsidiary, GP Network Corporation (GP Net).

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. 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 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 2002 annual report previously filed on Form 10-K. Results of interim periods are not necessarily indicative of results to be expected for the year.

Note 2 - Supplementary Balance Sheet Information

Cash and cash equivalent balances are summarized as follows:

	September 30, 2003	December 31, 2002
Cash and cash equivalents in domestic accounts	$ **15,577,640**	$ 84,462,671
Cash and cash equivalents in foreign accounts	**40,052,862**	24,708,535
Total	$ **55,630,502**	$ 109,171,206

The Company maintains accounts denominated in U.S. dollars, Euros, British Pounds Sterling (BPS), Canadian dollars and Japanese Yen.

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

	September 30,2003	December 31, 2002
Prepaid expenses	$ **7,650,587**	$ 8,228,801
Other	**18,033,082**	14,318,789
Total	$ **25,683,669**	$ 22,547,590

Significant components of contract acquisition costs are summarized as follows:

	September 30, 2003	December 31, 2002
Payments for processing rights, net	$ **85,672,776**	$ 89,740,749
Conversion costs, net	**42,558,452**	33,988,219
Total	$ **128,231,228**	$ 123,728,968

Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was $3.4 million and $2.7 million for the three months ended September 30, 2003 and 2002, respectively. Amortization related to payments for processing rights was $9.7 million and $7.7 million for the nine months ended September 30, 2003 and 2002, respectively.

Amortization expense related to conversion costs, which is recorded in other operating expenses, was $2.2 million and $947,000 for the three months ended September 30, 2003 and 2002, respectively. Amortization expense related to conversion costs, which is recorded in other operating expenses, was $5.0 million and $2.5 million for the nine months ended September 30, 2003 and 2002, respectively.

Significant components of other current liabilities are summarized as follows:

	September 30, 2003	December 31, 2002
Accrued expenses	$ **20,480,385**	$ 16,590,984
Customer postage deposits	**12,900,600**	16,054,531
Deferred revenues	**11,153,313**	8,552,131
Other	**9,101,174**	19,035,243
Total	$ **53,635,472**	$ 60,232,889

Note 3 - Comprehensive Income

Comprehensive income for TSYS consists of net income and foreign currency translation adjustments recorded as a component of shareholders' equity.

Comprehensive income for the three months ended September 30 is as follows:

	2003	2002
Net income	$ **35,512,189**	$ 32,815,522
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	**469,522**	70,458
Comprehensive income	$ **35,981,711**	$ 32,885,980

Comprehensive income for the nine months ended September 30 is as follows:

	2003	2002
Net income	$ **101,555,178**	$ 90,349,302
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	**2,092,622**	3,072,954
Comprehensive income	$ **103,647,800**	$ 93,422,256

The income tax effects allocated to and the cumulative balance of accumulated other comprehensive income are as follows:

	Balance at December 31, 2002	Pretax amount	Tax effect	Balance at September 30, 2003
Foreign currency translation adjustments	$1,052,897	3,399,727	(1,307,105)	$3,145,519

Note 4 – Segment Reporting and Major Customers

The Company reports selected information about operating segments in accordance with Statement of Financial Accounting Standards No. 131 (SFAS No. 131). The Company's segment information reflects the information that the chief operating decision makers (CODMs) use to make resource allocation and strategic decisions. The CODMs at TSYS consist of the chief executive officer, the president and the four executive vice presidents.

Through online accounting and electronic payment processing systems, Total System Services, Inc. provides electronic payment processing and other related services to card-issuing institutions in the United States, Mexico, Canada, Honduras, Europe and the Caribbean. The reportable units are segmented based upon geographic locations. Domestic-based processing services include electronic payment processing services and other services provided from the United States. Domestic-based processing services segment includes the financial results of TSYS, excluding its foreign branch offices, and including the following subsidiaries: CDEC, CPI, TDM, ProCard, ESC and TTC. International-based processing services include electronic payment processing and other services provided outside the United States. International-based processing services include the financial results of TCI, GP Net, Japan Co. and TSYS' branch offices in Europe and Japan.

Operating Segments	Domestic-based processing services	International-based processing services	Consolidated
At September 30, 2003			
Identifiable assets	**$ 899,842,955**	**127,098,376**	**$ 1,026,941,331**
Intersegment eliminations	**(121,931,572)**	**-**	**(121,931,572)**
Total assets	**$ 777,911,383**	**127,098,376**	**$ 905,009,759**
At December 31, 2002			
Identifiable assets	$ 777,509,354	92,145,647	$ 869,655,001
Intersegment eliminations	(86,787,491)	-	(86,787,491)
Total assets	$ 690,721,863	92,145,647	$ 782,867,510
Three Months Ended September 30, 2003			
Segment total revenue	**$ 246,191,840**	**20,425,010**	**$ 266,616,850**
Intersegment revenue	**(1,895)**	**(500,131)**	**(502,026)**
Total revenue	**$ 246,189,945**	**19,924,879**	**$ 266,114,824**
Depreciation and amortization	**$ 22,308,111**	**3,151,751**	**$ 25,459,862**
Segment operating income	**$ 47,586,835**	**1,312,001**	**$ 48,898,836**
Income taxes	**$ 16,634,551**	**874,284**	**$ 17,508,835**
Equity in income of joint ventures	**$ 3,619,673**	**300,807**	**$ 3,920,480**
Net income	**$ 35,127,911**	**384,278**	**$ 35,512,189**

Notes to Consolidated Financial Statements (continued)

Operating Segments		Domestic-based processing services	International-based processing services		Consolidated
Three Months Ended September 30, 2002					
Segment total revenue	$	223,372,672	16,701,468	$	240,074,140
Intersegment revenue		(181,150)	(286,357)		(467,507)
Total revenue	$	223,191,522	16,415,111	$	239,606,633
Depreciation and amortization	$	15,846,540	2,276,940	$	18,123,480
Segment operating income	$	40,131,744	532,565	$	40,664,309
Income taxes	$	15,014,685	870,013	$	15,884,698
Equity in income of joint ventures	$	5,044,508	217,903	$	5,262,411
Net income	$	31,292,983	1,522,539	$	32,815,522
Nine Months Ended September 30, 2003					
Segment total revenue	**$**	**717,159,615**	**59,620,269**	**$**	**776,779,884**
Intersegment revenue		**(4,685)**	**(1,608,812)**		**(1,613,497)**
Total revenue	**$**	**717,154,930**	**58,011,457**	**$**	**775,166,387**
Depreciation and amortization	**$**	**62,856,196**	**8,201,246**	**$**	**71,057,442**
Segment operating income	**$**	**130,552,797**	**6,269,653**	**$**	**136,822,450**
Income taxes	**$**	**48,263,995**	**2,866,959**	**$**	**51,130,954**
Equity in income of joint ventures	**$**	**12,111,562**	**797,212**	**$**	**12,908,774**
Net income	**$**	**98,115,199**	**3,439,979**	**$**	**101,555,178**
Nine Months Ended September 30, 2002					
Segment total revenue	$	662,255,488	48,444,035	$	710,699,523
Intersegment revenue		(488,319)	(1,075,826)		(1,564,145)
Total revenue	$	661,767,169	47,368,209	$	709,135,378
Depreciation and amortization	$	46,518,965	6,365,239	$	52,884,204
Segment operating income	$	113,236,115	1,673,869	$	114,909,984
Income taxes	$	41,648,604	1,646,708	$	43,295,312
Equity in income of joint ventures	$	13,961,588	678,914	$	14,640,502
Net income	$	87,853,692	2,495,610	$	90,349,302

Revenues for domestic-based processing services include electronic payment processing and other services provided from the United States to clients domiciled in the United States or other countries. Revenues from international-based processing services include electronic payment processing and other services provided outside the United States to clients domiciled mainly outside the United States.

The following geographic area data represent revenues for the three and nine months ended September 30, 2003 and 2002, respectively, based on the domicile of customers.

(Dollars in millions)		Three Months Ended September 30,		Nine Months Ended September 30,	
		2003	2002	**2003**	2002
United States	$	**214.7**	203.1	**632.5**	606.4
Canada		**20.1**	12.3	**55.2**	33.4
Europe		**16.9**	13.7	**49.2**	39.8
Mexico		**10.7**	7.3	**27.8**	20.4
Japan		**3.0**	2.7	**8.7**	7.6
Other		**0.7**	0.5	**1.8**	1.5
Totals	$	**266.1**	239.6	**775.2**	709.1

The Company maintains property and equipment in the United States, Europe, Canada and Japan. The following geographic area data represent net property and equipment balances by region:

(Dollars in millions)		**At September 30, 2003**	At December 31, 2002
United States	$	**190.7**	97.0
Europe		**26.7**	22.1
Japan		**2.0**	1.6
Canada		**0.2**	0.1
Totals	$	**219.6**	120.8

Major Customers

For the three months ended September 30, 2003, the Company had one major customer which accounted for approximately 17.5%, or $46.5 million, of total revenues. For the three months ended September 30, 2002, TSYS had two major customers that accounted for 31.0%, or $74.2 million, of total revenues. Revenues from major customers for the periods reported are attributable to the domestic-based processing services segment.

	Three Months Ended September 30,							
	2003				2002			
Revenue (Dollars in millions)		**Dollars**	**% of Total Revenues**			Dollars	% of Total Revenues	
Customer One	$	**46.5**	**17.5**	%	$	42.7	17.8	%
Customer Two		**na**	**na**			31.5	13.2	
Totals	$	**46.5**	**17.5**	%	$	74.2	31.0	%

na = not applicable. Client's revenues represent less than 10% of total consolidated revenue.

For the nine months ended September 30, 2003, the Company had two major customers which accounted for approximately 29.1%, or $225.8 million, of total revenues. For the nine months ended September 30, 2002, TSYS had two major customers that accounted for 32.9%, or $233.7 million, of total revenues. Revenues from major customers for the periods reported are attributable to the domestic-based processing services segment.

Revenue (Dollars in millions)	Nine Months Ended September 30, 2003 Dollars	2003 % of Total Revenues	2002 Dollars	2002 % of Total Revenues
Customer One	$ **142.5**	**18.4** %	$ 133.5	18.8 %
Customer Two	**83.3**	**10.7**	100.2	14.1
Totals	$ **225.8**	**29.1** %	$ 233.7	32.9 %

Note 5 – Stock-Based Compensation

The Company maintains stock-based compensation plans for purposes of incenting and retaining employees. The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25), “Accounting for Stock Issued to Employees,” and related Interpretations. Under APB No. 25, TSYS does not recognize compensation expense for a stock option grant if the exercise price is equal to or greater than the fair market value of the common stock on the grant date.

The following table illustrates the effect on net income and earnings per share for the three months ended September 30, 2003 and 2002, respectively, if the Company had applied the fair value recognition provisions of SFAS No. 123 (SFAS No. 123), “Accounting for Stock-Based Compensation,” to stock-based employee compensation granted in the form of TSYS and Synovus Financial Corp. (Synovus) stock options.

	September 30, 2003	September 30, 2002
Net income, as reported	$ **35,512,189**	$ 32,815,522
Stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax effects	**1,237,808**	1,647,008
Net income, as adjusted	$ **34,274,381**	$ 31,168,514
Earnings per share:		
Basic – as reported	$ **0.18**	$ 0.17
Basic – as adjusted	$ **0.17**	$ 0.16
Diluted – as reported	$ **0.18**	$ 0.17
Diluted – as adjusted	$ **0.17**	$ 0.16

The following table illustrates the effect on net income and earnings per share for the nine months ended September 30, 2003 and 2002, respectively, if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation granted in the form of TSYS and Synovus stock options.

	September 30, 2003	September 30, 2002
Net income, as reported	$ **101,555,178**	$ 90,349,302
Stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax effects	**3,678,919**	4,879,416
Net income, as adjusted	$ **97,876,259**	$ 85,469,886
Earnings per share:		
Basic – as reported	$ **0.52**	$ 0.46
Basic – as adjusted	$ **0.50**	$ 0.43
Diluted – as reported	$ **0.51**	$ 0.46
Diluted – as adjusted	$ **0.50**	$ 0.43

Note 6 – Long-Term Debt

On June 30, 2003, TSYS obtained a $45.0 million long-term line of credit from a banking affiliate of Synovus. The line is an automatic draw down facility. The interest rate for the line of credit is the London Interbank Offered Rate (LIBOR) plus 150 basis points. In addition, there is a charge of 15 basis points on any funds unused. The line of credit is unsecured and includes covenants requiring the Company to maintain certain minimum financial ratios. At September 30, 2003, TSYS did not have an outstanding balance on the line of credit.

Note 7 - Supplementary Cash Flow Information

Cash used for contract acquisition costs for the nine months ended September 30, 2003 and 2002 are summarized as follows:

	September 30, 2003	September 30, 2002
Conversion costs	$ **13,403,802**	$ 22,941,138
Payments for processing rights	**4,500,000**	11,375,786
Total	$ **17,903,802**	$ 34,316,924

Note 8 – Synthetic Lease

In 1997, the Company entered into an operating lease agreement with a special purpose entity (SPE) for the Company's corporate campus. The business purpose of the SPE was to provide a means of financing the Company's corporate campus. The assets and liabilities of the SPE consisted solely of the cost of the building and loans from a consortium of banks. The cost of the building and the outstanding principal balance of the debt included on the financial statements of the SPE both approximated $93.5 million. The lease, which was guaranteed by Synovus, provided for substantial residual value guarantees. The amount of the Company’s residual value guarantee relative to the assets under this lease was approximately $81.4 million. In accordance with generally accepted accounting principles, no asset or obligation was recorded on the Company's consolidated balance sheets.

The terms of this lease financing arrangement required, among other things, that the Company maintain certain minimum financial ratios and provide certain information to the lessor. TSYS was also subject to interest rate risk associated with the lease because of the short-term variable rate nature of the SPE's debt.

In 2002, the Company extended its operating lease agreement with the SPE for the Company's corporate campus for one year. On April 30, 2003, the Company provided written notice that it intended to terminate the lease agreement for the Company's corporate campus. If the synthetic lease had not been terminated, Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," would require TSYS to consolidate the SPE effective with the first reporting period ending after December 15, 2003.

On June 30, 2003, the Company terminated the operating lease agreement and purchased the corporate campus for $93.5 million with a combination of $73.3 million in cash and funds from a long-term line of credit through a banking affiliate of Synovus, which is discussed in Note 6 - Long-Term Debt.

Note 9 –Recent Accounting Pronouncements

In June 2001, the FASB issued Statement No. 143 (SFAS No. 143), "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company must also record a corresponding asset that depreciates over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company adopted SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 did not have a material effect on the Company's financial position, results of operations or cash flows.

In April 2002, the FASB issued Statement No. 145 (SFAS No. 145), "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 are applied in fiscal years beginning after May 15, 2002. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 did not have a material effect on the Company's financial position, results of operations or cash flows.

In June 2002, the FASB issued Statement No. 146 (SFAS No. 146),“Accounting for Costs Associated with Exit or Disposal Activities.” SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity.” The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on the Company’s financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.” This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. Interpretation No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of Interpretation No. 45 did not have a material effect on the Company’s financial position, results of operations or cash flows.

At the November 21, 2002 Emerging Issues Task Force (EITF) meeting, the Task Force ratified as a consensus the tentative conclusions it reached at the October 25, 2002 EITF meeting regarding Emerging Issues Task Force No. 00-21 (EITF No. 00-21), “Accounting for Revenue Arrangements with Multiple Deliverables.” EITF No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Those activities may involve the delivery or performance of multiple products, services, and/or rights to use assets, and performance may occur at different points in time or over different periods of time. The arrangements are often accompanied by initial installation, initiation, or activation services and generally involve either a fixed fee or a fixed fee coupled with a continuing payment stream. The continuing payment stream generally corresponds to the continuing performance and may be fixed, variable based on future performance, or composed of a combination of fixed and variable payments. EITF No. 00-21 addresses how to account for those arrangements. EITF No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Entities may also elect to report the change in accounting as a cumulative effect adjustment, in which case disclosure should be made in periods subsequent to the date of initial application of the amount of recognized revenue that was previously included in the cumulative effect adjustment. The adoption of EITF No. 00-21 did not significantly impact the Company’s financial position, results of operations or cash flows.

In December 2002, the FASB issued Statement No. 148 (SFAS No. 148), “Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123.” SFAS No. 148 amends FASB Statement No. 123 (SFAS No. 123), “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required beginning with the fiscal year ending after December 15, 2002 and are included in the notes to the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For enterprises such as the Company with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise in the first reporting period after December 15, 2003. A detailed discussion of TSYS' synthetic lease for its corporate campus and subsequent termination of the lease in 2003 is provided in Note 8 – Synthetic Lease.

In April 2003, the FASB issued Statement No. 149 (SFAS No. 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement will be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company's financial position, results of operations or cash flows.

In May 2003, the FASB issued Statement No. 150 (SFAS No. 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements." SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS No. 150 did not impact the Company's financial position, results of operations or cash flows.

Note 10 – Acquisition

On April 28, 2003, TSYS completed the acquisition of Enhancement Services Corporation (ESC) for $36.0 million in cash. The Company has allocated approximately $26.0 million to goodwill, approximately $8.2 million to intangibles and the remaining amount to the net assets acquired. ESC provides targeted loyalty consulting and travel, as well as gift card and merchandise reward programs to more than 40 national and regional financial institutions in the United States. The Company believes the acquisition of ESC enhances TSYS' processing services by adding distinct value differentiation for TSYS and its clients. ESC operates as a separate subsidiary of TSYS.

Presented below are the pro forma consolidated results of operations for the three and nine months ended September 30, 2003 and 2002, respectively, as though the acquisition of ESC had occurred on January 1 with respect to the nine month periods and on July 1 with respect to the three month period ended September 30, 2002.

(Dollars in thousands, except per share data)		Three Months Ended September 30,		Nine Months Ended September 30,	
		2003	2002	**2003**	2002
Revenues	$	**266,115**	242,972	**780,420**	717,756
Net income		**35,512**	33,274	**102,173**	90,466
Basic earnings per share		**0.18**	0.17	**0.52**	0.46
Diluted earnings per share		**0.18**	0.17	**0.52**	0.46

TOTAL SYSTEM SERVICES, INC.
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Review

This Financial Review provides a discussion of critical accounting policies, related party transactions, and off-balance sheet arrangements. This Financial Review also discusses the results of operations, financial condition, 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

TSYS' (The Company's) financial position, results of operations and cash flows are impacted by the accounting policies the Company has adopted. In order to get a full understanding of the Company's financial statements, one must have a clear understanding of the accounting policies employed.

Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, lower than anticipated growth from existing customers, an inability to attract new customers and grow internationally, loss of one of the Company’s major customers or other significant clients, an inability to grow through acquisitions or successfully integrate acquisitions, an inability to control expenses, technology changes, financial services consolidation, change in regulatory mandates, a decline in the use of cards as a payment mechanism, a decline in the financial stability of the Company's clients and uncertain economic conditions. Negative developments in these or other risk factors could have a material adverse effect on the Company’s financial position, results of operations and cash flows.

The Company has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. In preparing financial statements, it is necessary for management to make assumptions and estimates affecting the amounts reported in the consolidated financial statements and related notes. These estimates and assumptions are developed based upon all information available. Actual results could differ from estimated amounts.

A summary of the Company's critical accounting policies follows:

Revenue Recognition: The Company's electronic payment processing revenues are derived from long-term processing contracts with financial and nonfinancial institutions and are recognized as the services are performed. Electronic payment processing revenues are generated primarily from charges based on the number of accounts on file, transactions and authorizations processed, statements mailed, and other processing services for cardholder accounts on file. Most of these contracts have prescribed annual revenue minimums. The original terms of processing contracts generally range from three to ten years in length.

On March 3, 2003, the Company announced that Bank One selected TSYS to upgrade its credit card processing. Under the long term software licensing and services agreement, TSYS will provide electronic payment processing services to Bank One's credit card accounts for at least two years beginning in mid 2004 (excluding statement and card production services), and then TSYS will license a modified version of its TS2 consumer and commercial software to Bank One under a perpetual license with a six year payment term. The Company uses the percentage-of-completion accounting method for its agreement with Bank One.

The Company's other service revenues are derived from recovery collections work, bankruptcy process management, legal account management, skip tracing, commercial printing activities and customer relationship management services, such as call center activities for card activation and balance transfer requests. The contract terms for these services are generally shorter term in nature as compared with the Company's long-term processing contracts. Revenue is recognized on these other services either on a per unit or a fixed price basis. The Company uses the percentage-of-completion method of accounting for its fixed price contracts.

Accounts Receivable: Accounts receivable balances are stated net of allowances for doubtful accounts and billing adjustments of $9.3 million and $8.0 million at September 30, 2003 and December 31, 2002, respectively. The allowance represents 6.8% and 6.2% of total accounts receivable at September 30, 2003 and December 31, 2002, respectively. TSYS' client base mainly consists of financial institutions and other card issuers such as retailers. A substantial amount of the Company's accounts receivable balances are current, and the average number of days sales outstanding in accounts receivable at September 30, 2003 and December 31, 2002 was 47 days and 49 days, respectively. Because TSYS invoices clients for services monthly in arrears, accounts receivable includes one month of service billings not yet invoiced.

TSYS records allowances for doubtful accounts when it is probable that the accounts receivable balance will not be collected. When estimating the allowances for doubtful accounts, the Company takes into consideration such factors as its day-to-day knowledge of the financial position of specific clients, the industry and size of its clients, the overall composition of its accounts receivable aging, prior history with specific customers of accounts receivable write-offs and prior history of allowances in proportion to the overall receivable balance. This analysis includes an ongoing and continuous communication with its largest clients and those clients with past due balances. A financial decline of any one of the Company's large clients could have an adverse and material effect on collectibility of receivables and thus the adequacy of the allowance for doubtful accounts.

Increases in the allowance for doubtful accounts are recorded as charges to bad debt expense and are reflected in other operating expenses in the Company's consolidated statements of income. Write-offs of uncollectible accounts are charged against the allowance for doubtful accounts.

Critical Accounting Policies (continued)

TSYS records allowances for billing adjustments for actual and potential billing discrepancies. When estimating the allowance for billing adjustments, the Company considers its overall history of billing adjustments, as well as its history with specific clients and known disputes. Increases in the allowance for billing adjustments are recorded as a reduction of revenues in the Company's consolidated statements of income and actual adjustments to invoices are charged against the allowance for billing adjustments.

Contract Acquisition Costs: The Company capitalizes contract acquisition costs related to signing or renewing long-term contracts. These costs, primarily consisting of cash payments for rights to provide processing services and internal conversion costs, are amortized using the straight-line method over the contract term beginning when the client’s cardholder accounts are converted and producing revenues. All costs incurred prior to a signed agreement are expensed as incurred.

The amortization of contract acquisition costs associated with cash payments is recorded as a reduction of revenues in the Company's consolidated statements of income. The amortization of contract acquisition costs associated with conversion activity is recorded as other operating expenses in the Company’s consolidated statements of income. The Company evaluates the carrying value of contract acquisition costs for impairment for each customer on the basis of whether these costs are fully recoverable from expected undiscounted net operating cash flows of the related contract. The determination of expected undiscounted net operating cash flows requires management to make estimates.

These costs may become impaired with the loss of a contract, the financial decline of a client, termination of conversion efforts after a contract is signed, diminished prospects for current clients or if the Company's estimates of future cash flows differ from actual results.

Software Development Costs: The Company develops software that is used in providing electronic payment processing and other services to clients. Software development costs are capitalized once technological feasibility of the software product has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed a detailed program design and has determined that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available to clients for general use. The Company evaluates the unamortized capitalized costs of software development as compared to the net realizable value of the software product which is determined by future undiscounted net cash flows. The amount by which the unamortized software development costs exceed the net realizable value is written off in the period that such determination is made. Software development costs are amortized using the greater of (1) the straight-line method over its estimated useful life, which ranges from three to ten years or (2) the ratio of current revenues to total anticipated revenue over its useful life.

The Company also develops software that is used internally. These software development costs are capitalized based upon Statement of Position 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.” Internal-use software development costs are capitalized once (a) preliminary project stage is completed, (b) management authorizes and commits to funding a computer software project, and (c) it is probable that the project will be completed and the software will be used to perform the function intended. Costs incurred prior to meeting the qualifications are expensed as incurred. Capitalization of costs ceases when the project is substantially complete and ready for its intended use. Internal-use software development costs are amortized using an estimated useful life of three to seven years. Software development costs may become impaired in situations where development efforts are abandoned due to the viability of the planned project becoming doubtful or due to technological obsolescence of the planned software product.

Goodwill: Goodwill results from the excess of cost over the fair value of net assets of businesses acquired. In July 2001, the FASB issued Statement No. 141 (SFAS No. 141), "Business Combinations," and Statement No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately.

SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company adopted SFAS No. 142 January 1, 2002.

Impairment of Long-lived Assets and Intangibles: The Company reviews long-lived assets, such as property and equipment and intangibles subject to amortization, such as contract acquisition costs and computer software, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Transaction Processing Provisions: The Company has recorded estimates to accrue for contract contingencies (performance penalties) and processing errors. A significant number of the Company's contracts with large clients contain service level agreements which can result in TSYS incurring performance penalties if contractually required service levels are not met. When providing these accruals, the Company takes into consideration such factors as the prior history of performance penalties and processing errors incurred, actual contractual penalties inherent in the Company's contracts, progress towards milestones and known processing errors not covered by insurance.

These accruals are included in other current liabilities in the accompanying consolidated balance sheets. Increases and decreases in transaction processing provisions are charged to other operating expenses in the Company's consolidated statements of income and payments or credits for performance penalties and processing errors are charged against the accrual.

Related Party Transactions

The Company provides electronic payment processing and other services to its parent company, Synovus Financial Corp. (Synovus), and its affiliates, and for Vital Processing Services L.L.C. (Vital). The services are performed under contracts that are similar to its contracts with other customers. The Company believes the terms and conditions of transactions between the Company and these related parties 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. The amounts related to these transactions are disclosed on the face of TSYS' consolidated financial statements.

Vital Restricted Units

In 2000, the Board of Directors of Vital approved a plan to allow its owners to set aside 2 million units of the 100 million units held by the owners to make awards to key management of Visa and TSYS. In June 2000, TSYS awarded six of its key executives an aggregate of 800,000 Vital restricted stock units for their role in the development, growth and success of Vital. The units were to vest over a 36-month cliff-vesting schedule. The award of 800,000 units was made to incent key executives to continue to grow and develop Vital.

In connection with the termination of Vital's stock-based compensation plans, TSYS, with approval from the Compensation Committee, repurchased the Vital restricted units from the Company's six key executives in June 2003. The purchase price for the restricted shares of $3.85 per unit was based upon an independent, third party valuation of Vital conducted as of May 31, 2003. The Company recognized compensation expense throughout the entire vesting period. Semiannually, the Company received an independent third party evaluation of Vital throughout the vesting period and adjusted compensation expense accordingly. Through December 2002, the Company recognized $3.0 million as compensation expense. After adjusting for the updated evaluation in 2003, TSYS recognized $80,000 as compensation expense in 2003.

Lease Guarantee

To assist Vital in leasing its corporate facility, the Company and Visa U.S.A. (Visa) are guarantors, jointly and severally, for the lease payments on Vital's Tempe facility. The lease on the facility expires in July 2007. The total future minimum lease payments remaining at September 30, 2003 is $5.6 million. If Vital fails to perform its obligations with regard to the lease, TSYS and Visa will be required to perform in the same manner and to same extent as is required by Vital.

Line of Credit

On June 30, 2003, TSYS obtained a $45.0 million long-term line of credit from a banking affiliate of Synovus. The line is an automatic draw down facility. The interest rate for the line of credit is the London Interbank Offered Rate (LIBOR) plus 150 basis points. In addition, there is a charge of 15 basis points on any funds unused. The line of credit is unsecured debt and includes covenants requiring the Company to maintain certain minimum financial ratios. At September 30, 2003, TSYS did not have an outstanding balance on the line of credit. As the LIBOR rate changes, TSYS will be subject to interest rate risk.

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 because of potential rapid technological obsolescence. Neither the assets nor obligations related to these leases are included on the balance sheet. One of the Company's most significant leases was its synthetic lease for its corporate campus.

Synthetic Lease: In 1997, the Company entered into an operating lease agreement with a special purpose entity (SPE) for the Company's corporate campus. The business purpose of the SPE was to provide a means of financing the Company's corporate campus. The assets and liabilities of the SPE consisted solely of the cost of the building and loans from a consortium of banks. The cost of the building and the outstanding principal balance of the debt included on the financial statements of the SPE both approximated $93.5 million. The lease, which was guaranteed by Synovus, provided for substantial residual value guarantees. The amount of the Company’s residual value guarantee relative to the assets under this lease was approximately $81.4 million. In accordance with generally accepted accounting principles, no asset or obligation was recorded on the Company's consolidated balance sheets.

The terms of this lease financing arrangement required, among other things, that the Company maintain certain minimum financial ratios and provide certain information to the lessor. TSYS was also subject to interest rate risk associated with the lease because of the short-term variable rate nature of the SPE’s debt.

In 2002, the Company extended its operating lease agreement with the SPE for the Company’s corporate campus for one year. On April 30, 2003, the Company provided written notice that it intended to terminate the lease agreement for the Company’s corporate campus. If the synthetic lease had not been terminated, Financial Accounting Standards Board (FASB) Interpretation No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,” would require TSYS to consolidate the SPE effective with the reporting period beginning July 1, 2003.

On June 30, 2003, the Company terminated the operating lease agreement and purchased the corporate campus for $93.5 million with a combination of $73.3 million in cash and funds from a long-term line of credit through a banking affiliate of Synovus, which is discussed in the Related Party Transactions on page 24.

As a result of the purchase, net occupancy and equipment expense is not expected to increase because the increase of approximately $2.6 million annually for depreciation of the building and related equipment will be offset by the decrease in annual rent expense related to the lease. Interest income, net will be negatively impacted as a result of purchasing the campus.

At September 30, 2003, the Company did not have any synthetic lease agreements.

Results of Operations

The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage increases or decreases in those items for the three months ended September 30, 2003 and 2002:

	Percentage of Total Revenues		Percentage Change in Dollar Amounts
	2003	2002	2003 vs. 2002
Revenues:			
Electronic payment processing services	**67.5** %	65.8 %	13.8 %
Other services	**11.6**	10.6	21.5
Revenues before reimbursable items	**79.1**	76.4	14.9
Reimbursable items	**20.9**	23.6	(1.2)
Total revenues	**100.0**	100.0	11.1
Expenses:			
Salaries and other personnel expense	**30.6**	33.0	3.2
Net occupancy and equipment expense	**19.2**	18.6	14.3
Other operating expenses	**10.9**	7.8	52.8
Expenses before reimbursable items	**60.7**	59.4	13.3
Reimbursable items	**20.9**	23.6	(1.2)
Total expenses	**81.6**	83.0	9.2
Operating income	**18.4**	17.0	20.2
Nonoperating income	**0.1**	1.2	(93.0)
Income before income taxes, minority interest and equity in income of joint ventures	**18.5**	18.2	12.8
Income taxes	**6.6**	6.6	10.2
Minority interest in consolidated subsidiary's net income	**(0.0)**	(0.0)	nm
Equity in income of joint ventures	**1.4**	2.2	(25.5)
Net income	**13.3** %	13.8 %	8.2 %

nm = not meaningful

Results of Operations (continued)

The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage increases or decreases in those items for the nine months ended September 30, 2003 and 2002:

	Percentage of Total Revenues		Percentage Change in Dollar Amounts
	2003	2002	2003 vs. 2002
Revenues:			
Electronic payment processing services	**67.7** %	64.1 %	15.4 %
Other services	**10.5**	11.4	0.8
Revenues before reimbursable items	**78.2**	75.5	13.2
Reimbursable items	**21.8**	24.5	(2.7)
Total revenues	**100.0**	100.0	9.3
Expenses:			
Salaries and other personnel expense	**31.1**	31.2	9.0
Net occupancy and equipment expense	**19.7**	18.4	17.2
Other operating expenses	**9.7**	9.7	9.4
Expenses before reimbursable items	**60.5**	59.3	11.6
Reimbursable items	**21.8**	24.5	(2.7)
Total expenses	**82.3**	83.8	7.4
Operating income	**17.7**	16.2	19.1
Nonoperating income	**0.4**	0.6	(23.9)
Income before income taxes, minority interest and equity in income of joint ventures	**18.1**	16.8	17.5
Income taxes	**6.6**	6.1	18.1
Minority interest in consolidated subsidiary's net income	**(0.1)**	(0.1)	nm
Equity in income of joint ventures	**1.7**	2.1	(11.8)
Net income	**13.1** %	12.7 %	12.4 %

nm = not meaningful

Revenues

TSYS' revenues are derived from providing electronic payment processing and related services to financial and nonfinancial institutions, generally under long-term processing contracts. TSYS' services are provided through the Company's cardholder systems, TS2 and TS1, to financial institutions and other organizations throughout the United States, Mexico, Canada, Honduras, the Caribbean and Europe. The Company currently offers merchant services to financial institutions and other organizations in Japan through its majority owned subsidiary, GP Net, and in the United States through its joint venture, Vital. Total revenues increased $26.5 million and $66.0 million, or 11.1% and 9.3%, during the three and nine months ended September 30, 2003, compared to the same periods in 2002. Excluding reimbursable items, revenues increased $27.2 million and $70.8 million, or 14.9% and 13.2%, during the three and nine months ended September 30, 2003, respectively, compared to the same periods in 2002.

Results of Operations (continued)

Electronic Payment Processing Services

Electronic payment processing revenues are generated primarily from charges based on the number of accounts on file, transactions and authorizations processed, statements mailed, credit bureau reports, cards embossed and mailed, and other processing services for cardholder accounts on file. Cardholder accounts on file include active and inactive consumer credit, retail, debit, stored value, student loan and commercial card accounts. Due to the number of cardholder accounts processed by TSYS and the expanding use of cards as well as increases in the scope of services offered to clients, revenues relating to electronic payment processing services have continued to grow. Revenues from electronic payment processing services increased $21.7 million and $70.1 million, or 13.8% and 15.4%, for the three and nine months ended September 30, 2003, respectively, compared to the same periods in 2002.

Due to the seasonal nature of credit card transactions, TSYS' revenues and results of operations have generally increased in the fourth quarter of each year because of increased transaction and authorization volumes during the traditional holiday shopping season. Furthermore, growth or a decline in card portfolios of existing clients, the conversion of cardholder accounts of new clients to the Company's processing platforms, and the loss of cardholder accounts impact the results of operations from period to period. Another factor, among others, which may affect TSYS' revenues and results of operations from time to time, is the sale by a client of its business, its card portfolio or a segment of its accounts to a party which processes cardholder accounts internally or uses another third-party processor.

Processing contracts with large clients, representing a significant portion of the Company's total revenues, generally provide for discounts on certain services based on the size and activity of clients' portfolios. Therefore, electronic payment processing revenues and the related margins are influenced by the client mix relative to the size of client card portfolios, as well as the number and activity of individual cardholder accounts processed for each client. Consolidation among financial institutions has resulted in an increasingly concentrated client base, which results in a changing client mix toward larger clients. Consolidation in either the financial services or retail industries, a change in the economic environment in the retail sector, or a change in the mix of payments between cash and cards could favorably or unfavorably impact TSYS' financial condition, results of operations and cash flows in the future.

The Company provides services to its clients including processing consumer, retail, commercial, debit and stored-value cards, as well as student loan account processing. Consumer cards include Visa, MasterCard and American Express credit cards. Debit/Stored value accounts include debit cards and stored value cards. Government services/EBT accounts on file consist mainly of student loan processing accounts. Retail cards include private label and gift cards. Commercial cards include purchasing cards, corporate cards and fleet cards for employees. The following table summarizes TSYS' accounts on file (AOF) by portfolio type as of:

Results of Operations (continued)

AOF by Type	**September 30, 2003**		September 30, 2002		
(in millions)	**AOF**	**%**	AOF	%	% Change
Consumer	**142.2**	**53.1**	131.0	55.6	8.6
Retail	**83.7**	**31.3**	75.4	32.0	11.0
Commercial	**21.0**	**7.8**	19.4	8.2	8.1
Debit/stored value	**7.9**	**2.9**	6.0	2.5	31.9
Government services/EBT	**13.1**	**4.9**	4.0	1.7	nm
Total	**267.9**	**100.0**	235.8	100.0	13.6

nm = not meaningful

Average cardholder accounts on file for the three months ended September 30, 2003 were 265.9 million, an increase of approximately 14.7% over the average of 231.8 million for the same period in 2002. Average cardholder accounts on file for the nine months ended September 30, 2003 were 259.6 million, an increase of approximately 13.7% over the average of 228.4 million for the same period in 2002. Cardholder accounts on file at September 30, 2003 were 267.9 million, a 13.6% increase compared to the 235.8 million accounts on file at September 30, 2002. The change in cardholder accounts on file from September 2002 to September 2003 included the deconversion and purging of 12.7 million accounts, the addition of approximately 25.1 million accounts attributable to the internal growth of existing clients, and approximately 19.7 million accounts for new clients.

TSYS expects to continue expanding its market share in the consumer, debit, retail and commercial card arenas. The Company's future growth is dependent upon new clients, international expansion and continued internal growth of clients' portfolios.

TSYS is a major third-party processor of retail cards. Traditional retail card operations are increasing the activity of their card portfolios by converting inactive accounts to Visa/MasterCard consumer cards. TSYS is able to provide its extensive electronic payment processing tools and techniques, as well as value-added functionality, to traditional retail card operations allowing better segmentation and potentially increased profitability for customers. TSYS does not receive as much revenue from retail cards, on a per account basis, as it does from consumer cards because consumer cards traditionally generate more transactions. Retail cards are generally limited to a particular location or retail chain. Consumer cards are widely accepted at numerous retail outlets.

In March 2003, Sears announced that it was evaluating strategic alternatives for the company's private label and MasterCard portfolio. In July, Sears and Citigroup announced an agreement for the proposed sale by Sears to Citigroup of the Sears credit card and financial services businesses by the end of 2003. Sears and Citigroup are both customers of TSYS, and TSYS considers its relationships with both companies to be very positive.

Results of Operations (continued)

TSYS and Sears are parties to a 10-year agreement, which was renewed in January of 2000, under which TSYS provides transaction processing for more than 79.9 million Sears accounts. The TSYS/Sears processing agreement as it relates to the Sears retail and MasterCard portfolios expires on April 30, 2010. During the nine-month period ended September 30, 2003, TSYS' revenues from the TSYS/Sears agreement represented 6.3% of TSYS' consolidated revenues. The agreement includes provisions for termination for convenience prior to its expiration upon the payment of a termination fee. This termination fee is not fixed, but is reduced annually the closer the termination date is to the expiration date of the agreement. The TSYS/Sears agreement also grants to Sears the one-time right to market test TSYS' pricing and functionality after May 1, 2004. Potential results of such market test, in which TSYS will be a participant, include continuation of the processing agreement under its existing terms, continuation of the processing agreement under mutually agreed modified terms, or termination of the processing agreement after May 1, 2006 without a termination fee.

At this point in time, TSYS is discussing with Citigroup Citigroup's future plans for the Sears portfolios. TSYS believes that many aspects of the TSYS/Sears processing agreement are unique to its relationship with Sears, and TSYS intends to address those issues in future conversations and negotiations with Citigroup. The impact of the proposed transaction between Sears and Citigroup on the financial position, results of operations and cash flows of TSYS cannot be determined at this time.

TSYS has a dominant market share position in the domestic Visa and MasterCard commercial card-processing arena. Future growth in this area is dependent upon increased card activity with more purchasing by businesses being transacted electronically and additional firms realizing the benefits of converting their paper-based purchasing systems to electronic transactions using commercial cards.

In April 2002, the Company announced that it had entered into a five-year agreement with Accenture to provide processing services for the U.S. Department of Education. TSYS began processing all student loan originations for the Department of Education on April 26, 2002, and was processing 12.9 million student loan accounts at September 30, 2003.

TSYS processes debit and stored value cards. At September 30, 2003, TSYS was processing 7.9 million debit and stored value accounts, a 31.9% increase, or 1.9 million accounts, compared to 6.0 million at September 30, 2002. The majority of the increase relates to one client adding approximately 1.3 million stored value accounts.

TSYS provides processing services to its clients worldwide. TSYS plans to continue to expand its service offerings to other countries in the future. The following table summarizes TSYS' AOF by area based on the domicile of processing clients as of:

AOF by Area	**September 30, 2003**		September 30, 2002		
(in millions)	**AOF**	**%**	AOF	%	% Change
Domestic	**221.9**	**82.8**	206.5	87.6	7.5
Foreign	**46.0**	**17.2**	29.3	12.4	56.9
Total	**267.9**	**100.0**	235.8	100.0	13.6

Results of Operations (continued)

The Company's electronic payment processing services revenues are also impacted by the use of optional value added products and services of TSYS' processing systems. Value added products and services are optional features each client can choose to subscribe to in order to potentially increase the financial performance of its portfolio. Value added products and services include: risk management tools and techniques, such as credit evaluation, fraud detection and prevention, and behavior analysis tools; and revenue enhancement tools and customer retention programs, such as loyalty programs and bonus rewards. These revenues can increase or decrease over time as clients subscribe to or cancel these services.

For the three months ended September 30, 2003 and 2002, value added products and services represented 14.0% and 13.1%, or $37.1 million and $31.3 million, of total revenues, respectively. Revenues from value added products and services, which include some reimbursable items paid to third-party vendors, increased 18.6%, or $5.8 million, for the three months ended September 30, 2003, compared to the same period in 2002.

For the nine months ended September 30, 2003 and 2002, value added products and services represented 14.0% and 12.5%, or $108.5 million and $88.5 million, of total revenues, respectively. Revenues from value added products and services, which include some reimbursable items paid to third-party vendors, increased 22.6%, or $20.0 million, for the nine months ended September 30, 2003, compared to the same period in 2002.

On March 3, 2003, the Company announced that Bank One selected TSYS to upgrade its credit card processing. Under the long term software licensing and services agreement, TSYS will provide electronic payment processing services to Bank One's credit card accounts for at least two years starting in mid 2004 (excluding statement and card production services), and then TSYS will license a modified version of its TS2 consumer and commercial software to Bank One under a perpetual license with a six year payment term. The Company uses the percentage-of-completion accounting method for its agreement with Bank One and recognizes revenues in proportion to costs incurred. The impact upon 2003 earnings will be slightly positive. The 2004 earnings per share (EPS) contribution from the Bank One agreement is expected to range from $0.03 to $0.04. Beginning in 2005 and continuing thereafter through the payment term of the license, the EPS contribution of the Bank One agreement is expected to exceed $0.04 on an annual basis.

Other Services

Revenues from other services consist primarily of revenues generated by TSYS' wholly owned subsidiaries. Revenues from other services increased $5.5 million, or 21.5%, in the third quarter of 2003, compared to the third quarter of 2002. Revenues from other services increased $638,000, or 0.8%, for the first nine months of 2003, compared to the same period in 2002. During the third quarter of 2003, other service revenues increased as a result of increased debt collection services performed by TSYS Total Debt Management, Inc. On a year-to-date basis, this increase was offset by the decline in call center and business process management revenues related to decreased business from a client in the subprime credit business and the loss of business of a major airline client.

Results of Operations (continued)

On April 28, 2003, TSYS completed the acquisition of Enhancement Services Corporation (ESC) for $36.0 million in cash. ESC provides targeted loyalty consulting and travel, as well as gift card and merchandise reward programs to more than 40 national and regional financial institutions in the United States. The Company believes the acquisition of ESC enhances TSYS processing services by adding distinct value differentiation for TSYS and its clients. For the three months and nine months ended September 30, 2003, TSYS' revenues include $4.1 million and $7.2 million, respectively, related to ESC's revenues and are included in other services.

Major Customers

A significant amount of the Company's revenues is derived from long-term contracts with large clients, including certain major customers. For the three months ended September 30, 2003, the Company had one major customer. The major customer for the quarter ended September 30, 2003 accounted for approximately 17.5%, or $46.5 million, of total revenues. For the three months ended September 30, 2002, TSYS had two major customers that accounted for 31.0%, or $74.2 million, of total revenues. The loss of one of the Company's major customers, or other significant clients, could have a material adverse effect on the Company's financial position, results of operations and cash flows.

For the nine months ended September 30, 2003, the Company had two major customers. The two major customers for the nine months ended September 30, 2003 accounted for approximately 29.1%, or $225.8 million, of total revenues. For the nine months ended September 30, 2002, TSYS had two major customers that accounted for 32.9%, or $233.7 million, of total revenues. The loss of one of the Company's major customers, or other significant clients, could have a material adverse effect on the Company's financial position, results of operations and cash flows.

Reimbursable Items

Reimbursable items decreased $691,000 and $4.7 million, or 1.2% and 2.7%, for the three and nine months ended September 30, 2003, respectively, as compared to the same periods last year. The majority of reimbursable items relates to the Company's domestic-based clients and is primarily costs associated with postage. The decrease in 2003 is related to services provided to a major client that mailed fewer statements in 2003 compared to 2002, and therefore required less postage.

Operating Expenses

Total expenses increased 9.2% and 7.4% for the three and nine months ended September 30, 2003, respectively, compared to the same periods in 2002. Excluding reimbursable items, total expenses increased 13.3% and 11.6% for the three and nine months ended September 30, 2003, respectively, compared to the same periods in 2002. The increases in operating expenses are attributable to changes in each of the expense categories as described below.

Salaries and other personnel expenses increased $2.5 million and $19.9 million, or 3.2% and 9.0%, for the three and nine months ended September 30, 2003, respectively, compared to the same periods in 2002. The change in employment expenses is associated with the growth in the number of employees, normal salary increases and related benefits, as well as lower levels of employment costs categorized as software development and contract acquisition costs. These increases were offset during the quarter with a reduction in the accrual for performance-based incentive benefits. The average number of employees in the third quarter of 2003 increased to 5,607, which increased 7.6%, compared to 5,210 in the same period in 2002. The average number of employees for the first nine months of 2003 increased to 5,348, which increased 1.5% compared to 5,268 in the same period in 2002. During the second quarter, TSYS added approximately 220 employees associated with the ESC acquisition and the creation of a wholly- owned subsidiary named TSYS Technology Center, Inc. (TTC) in Boise, Idaho. Initially employing 77 team members, the TTC team members will support technology efforts throughout TSYS, including government services, customer care, programming, and systems development. At October 31, 2003, TSYS had 5,548 full-time and 215 part-time employees.

Net occupancy and equipment expense increased $6.4 million and $22.5 million, or 14.3% and 17.2%, for the three and nine months ended September 30, 2003, respectively, over the same periods in 2002. Due to rapidly changing technology in computer equipment, TSYS' equipment needs are achieved to a large extent through operating leases. Computer equipment and software rentals, which represent the largest component of net occupancy and equipment expense, increased approximately $1.9 million and $8.1 million for the three and nine months ended September 30, 2003, respectively, compared to the same periods of 2002. Depreciation and amortization increased $5.0 million and $13.7 million during the three and nine months ended September 30, 2003, respectively, compared to the same periods in 2002. The increase in depreciation and amortization is the result of the amortization of additional software acquired in 2002, as well as, the amortization of developed software placed in service after September 30, 2002.

Other operating expenses for the three and nine months of 2003 increased $10.0 million and $6.5 million, or 52.8% and 9.4%, respectively, as compared to the same periods in 2002. Other operating expenses include, among other things, amortization of conversion costs, professional advisory fees and court costs associated with its debt collection business. The Company's amortization of conversion costs increased $1.3 million and $2.5 million for the three and nine month periods, respectively, ended September 30, 2003, as compared to the same periods last year. During the third quarter of 2003, the Company also incurred $1.3 million of expense for a third-party professional advisory firm to assist in strategic planning. As a result of a new debt-collection agreement with an existing client signed in the third quarter of 2003, the Company recognized $3.7 million of attorney court costs and commissions in operating expenses that it expects to recover in future periods. The Company anticipates that these debt collection costs will continue.

Other operating expenses also include charges for processing errors, contractual commitments and bad debt expense. As described in the Critical Accounting Policies section, management's evaluation of the adequacy of its transaction processing reserves and allowance for doubtful accounts is based on a formal analysis which assesses the probability of losses related to contractual contingencies, processing errors and uncollectible accounts. Increases and decreases in transaction processing provisions and charges for bad debt expense are reflected in other operating expenses. For the three month and nine month periods ended September 30, 2003, the Company's transaction processing expenses increased $2.2 million and decreased $2.6 million, respectively.

Operating Income

Operating income increased 20.2% and 19.1% for the three and nine months ended September 30, 2003, respectively, over the same periods in 2002. The increase in operating income was the result of the Company's commitment to contain the growth in operating expenses below the growth rate in revenues. The Company's operating profit margin for the third quarter of 2003 was 18.4%, compared to 17.0% for the same period last year. The Company's operating profit margin for the first nine months of

2003 was 17.7%, compared to 16.2% for the same period last year. The Company's focus on expense control was the main reason for the improved margin.

Management believes that reimbursable items distort operating profit margin as defined by generally accepted accounting principles. Management evaluates the Company's operating performance based upon operating margin excluding reimbursable items. Management believes that operating profit margin excluding reimbursable items is more useful because reimbursable items do not impact profitability as the Company receives reimbursement for expenses incurred on behalf of its clients.

Excluding reimbursable items, the Company's operating profit margin for the three months ended September 30, 2003 was 23.2%, compared to 22.2% for the three months ended September 30, 2002. Excluding reimbursable items, the Company's operating profit margin for the nine months ended September 30, 2003 was 22.6%, compared to 21.5% for the nine months ended September 30, 2002.

Below is the reconciliation between reported operating margin and adjusted operating margin excluding reimbursable items for the three months and nine months ended September 30, 2003 and 2002:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2003	2002	**2003**	2002
Operating income (a)	$	**48,898,836**	40,664,309	**136,822,450**	114,909,984
Total revenues (b)	$	**266,114,824**	239,606,633	**775,166,387**	709,135,378
Operating margin (as reported) (a)/(b)		**18.4%**	17.0%	**17.7%**	16.2%
Revenue before reimbursable items (c)	$	**210,374,177**	183,174,614	**606,313,924**	535,555,143
Adjusted operating margin (a)/(c)		**23.2%**	22.2%	**22.6%**	21.5%

Nonoperating Income

Interest income, net, includes interest income of $483,800 and $35,800 of interest expense for the three months of 2003. During the three months ended September 30, 2002, interest income, net, included interest income of $729,700 and $6,500 of interest expense.

Interest income, net, includes interest income of $2.4 million and $65,500 of interest expense for the nine months ended September 30, 2003. During the nine months ended September 30, 2002, interest income, net, included interest income of $2.1 million and $27,000 of interest expense.

In connection with the Company's purchase of its corporate campus and its potential impact to nonoperating income, a detailed discussion of TSYS' synthetic lease for its corporate campus and subsequent termination of the lease in 2003 is provided in Related Party Transactions.

In July 2002, the Company restructured $12.6 million of its permanent financing of its UK operation as an intercompany loan. The financing requires the unit to repay the financing in US dollars. The functional currency of the European operations is the British Pound Sterling (BPS). As the Company translates the European financial statements into US dollars, the translated balance of the financing (liability) is adjusted upward or downward to match the US-dollar obligation (receivable) on the Company's financial statement. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation in the Company’s statements of income. As a result of the restructuring, the Company recorded a foreign currency translation loss on the Company’s financing with its European operations during the third quarter of 2003 of $71,100 compared to a foreign currency translation gain of $1.7 million for the same period last year. For the nine months ended September 30, 2003, the Company recorded a gain on foreign currency translations of $13,800, compared to a foreign currency translation gain of $1.7 million for the same period last year. During the third quarter of 2003, the European operations repaid the remaining balance of the financing.

The Company also 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 BPS. As the Company translates the foreign-denominated cash balances into US 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 majority of the translation gain of $916,000 for the first nine months of September 30, 2003 relates to the translation of cash accounts.

In anticipation of future capital expenditures in Europe, the Company contributed its BPS cash accounts into additional equity in its European operations. The funds will be primarily used by the European operation to pay for the building of the new data center in Europe. The balance of the Company’s foreign-denominated cash accounts subject to risk of translation gains or losses at September 30, 2003 was approximately $364,000, the majority of which is denominated in BPS.

Income Taxes

TSYS' effective income tax rate for the three months ended September 30, 2003 was 33.2%, compared to 32.8% for the same period in 2002. TSYS' effective income tax rate for the nine months ended September 30, 2003 was 33.7%, compared to 32.6% for the same period in 2002. The increase in the effective income tax rate for the three and nine months ended September 30, 2003, as compared to the same period in 2002, is the result of the recognition of certain tax credits in 2002 not available in 2003. The calculation of the effective tax rate is income taxes divided by TSYS’ pretax income adjusted for minority interest in consolidated subsidiary’s net income and equity earnings of the joint venture of Vital. The Company expects its effective income tax rate for 2003 to be approximately 33-34%.

Equity in Income of Joint Ventures

TSYS' share of income from its equity in joint ventures was $3.9 million and $5.3 million for the three months ended September 30, 2003 and 2002, respectively. For the first nine months of 2003 and 2002, TSYS' share of income from its equity in joint ventures was $12.9 million and $14.6 million, respectively. The decrease for the quarter is attributable to the decrease in Vital’s operating results as a result of pricing compression, and nonrecurring charges associated with an executive’s retirement and termination of Vital’s stock-based compensation plans as discussed below.

Vital Processing Services L.L.C. (Vital)

Vital, a limited liability company, is a merchant processing joint venture of TSYS and Visa U.S.A. (“VISA”). The Company is a leader in providing integrated end-to-end electronic transaction processing services primarily to large financial institutions and other merchant acquirers. Vital processes all payment forms including credit, debit, electronic benefit transfer and check truncation for merchants of all sizes across a wide array of retail market segments. The Company's unbundled products and services 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 sales and service. Vital's products and services are marketed to merchant acquirers through a direct sales force, which concentrates on developing long-term relationships with existing and prospective clients.

The Company considers Vital to be an integral part of its overall processing operations and an important part of its overall market strategy. Prior to forming the joint venture, TSYS performed back-end merchant processing services for its clients. The revenues and expenses associated with merchant processing were included in operating profits. In the ordinary course of business, TSYS, which still owns the merchant processing software, provides back-end processing services to Vital. For the three months ended September 30, 2003 and 2002, TSYS generated $5.3 million and $6.1 million of revenue from Vital, respectively. For the nine months ended September 30, 2003 and 2002, TSYS generated $16.4 million and $17.2 million of revenue from Vital, respectively.

During the three months ended September 30, 2003, the Company's equity in income of joint ventures related to Vital was $3.6 million, a 28.2% decrease, or $1.4 million, compared to $5.0 million for the same period last year. During the nine months ended September 30, 2003, the Company's equity in income of joint ventures related to Vital was $12.1 million, a 13.3% decrease, or $1.9 million, compared to $14.0 million for the same period last year.

In June 2003, TSYS repurchased the 800,000 restricted units of Vital from TSYS' key executives that TSYS set aside in 2000 for the executives' role in the development, growth and success of Vital. A detailed discussion is provided in Related Party Transactions on page 24.

The following is a summary of Vital's consolidated statements of income for the three and nine months ended September 30, 2003 and 2002:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	**2003**	2002
Revenues	**$63,560**	62,322	**189,200**	185,525
Operating income	**7,530**	9,807	**24,736**	28,084
Net income*	**7,618**	9,916	**25,100**	28,528

*Vital is a limited liability company and is taxed in a manner similar to a partnership; therefore, net income related to Vital does not include income tax expense

Vital provides products and services through its merchant services offerings. Vital's revenues are primarily generated from charges based on: the number of transactions processed; the number of merchant accounts on its systems; the number of reports provided (electronic and paper) to acquirers and merchants; and the sale and service of point of sale terminal equipment. Revenues generated by these activities depend upon a number of factors, such as demand for and price of Vital's services, the technological competitiveness of its product offerings, Vital's reputation for providing timely and reliable service, competition within the industry, and general economic conditions.

Processing contracts with large clients, representing a significant portion of Vital's total revenues, generally provide for discounts on certain services based on the volume of transactions processed by the client. Both the number and type of merchants influence transaction volumes. The growth or loss of merchants impacts the results of operations from period to period. Vital's operating results may also be significantly impacted by a customer selling all or a portion of its merchant acquiring business. Consolidation among financial institutions has resulted in an increasingly concentrated client base, which results in revenues being concentrated in a smaller number of clients.

Vital's revenues increased $1.2 million, or 2.0%, and increased $3.7 million, or 2.0%, for the three and nine months ended September 30, 2003, respectively, compared to the same periods in 2002. The increase in the third quarter of 2003, as compared to the same period in 2002, included a $548,000 increase in reimbursable items. The remaining increase was primarily the result of the number of transactions processed in 2003 compared to 2002 partially offset by price concessions related to the renewal of contracts in 2002 and 2003. The increase in 2003 over 2002 for the nine-month periods was primarily the result of reimbursable items increasing $3.9 million. Increases in the number of transactions processed (net of price reductions to certain customers) and revenues associated with Vital's terminal deployment business also increased revenues in 2003.

Vital's major expense items include salaries and other personnel expense and equipment expense. Salaries and other personnel expense, a significant portion of Vital's operating expenses, consists of the cost of personnel who develop and maintain processing applications, operate computer networks and provide customer support; wages and related expenses paid to sales personnel; non-revenue producing customer support functions and administrative employees and management.

Other expenses consist primarily of the cost of network telecommunications capability; transaction processing systems including depreciation and amortization, maintenance and other system costs; third party service providers including TSYS and VISA; and terminal equipment cost of sales.

Salaries and other personnel expenses increased $5,786,000, or 48.3% in the third quarter of 2003 compared to the third quarter 2002 and $6,406,000, or 15.3% on a year to date basis. The increase for both the quarter and the year to date periods is attributable to increases in the costs of benefit plans and nonrecurring charges associated with an executive's retirement and termination of Vital's stock-based compensation plans.

Vital's cost of services decreased $848,000, or 2.4%, for the three months ended September 30, 2003, compared to the same period in 2002. For the nine-months ended September 30, 2003, Vital's cost of services increased $2.8 million, or 2.8%, compared to the same period last year. The decrease for the three-month period was the result of recent decreases in the costs of telecommunication and other third-party service providers. The increase in the nine-month period was primarily a result of increases in: the cost of fees charged by debit network providers; increased reimbursable items and terminal equipment cost of sales as a result of increased terminal sales.

Vital has agreements with both TSYS and VISA to provide key services related to its business. Vital is dependent on both TSYS and VISA to perform on their obligations under these agreements. Vital's results of operations could be significantly impacted by material changes in the terms and conditions of the agreements with TSYS and VISA, changes in performance standards and the financial condition of both TSYS and VISA.

Vital, as a limited liability company, is treated similar to a partnership for income tax purposes. As a result, no provision for current or deferred income taxes has been made in Vital's financial statements. Vital's taxable income or loss is reportable on the tax returns of its owners based on their proportionate interest in Vital.

TSYS de México

The Company has a joint venture with a number of Mexican banks and records its 49% ownership in the joint venture using the equity method of accounting. The operation, Total System Services de México, S.A. de C.V. (TSYS de México), prints statements and provides card-issuing support services to the joint venture clients.

During the three months ended September 30, 2003, the Company's equity in income of joint ventures related to TSYS de México was $301,000, a 38.0% increase, or $83,000, compared to $218,000 for the same period last year. During the nine months ended September 30, 2003, the Company's equity in income of joint ventures related to TSYS de México was $797,000, a 17.4% increase, or $118,000, compared to $679,000 for the same period last year.

TSYS' electronic payment processing revenues from clients based in Mexico was $10.7 million for the third quarter ended September 30, 2003, a 46.4% increase over the $7.3 million for the third quarter ended September 30, 2002. TSYS' electronic payment processing revenues from clients based in Mexico was $27.8 million for the first nine months ended September 30, 2003, a 36.1% increase over the $20.4 million for the same period in 2002. The increase in revenues is primarily attributable to increased account on file growth of approximately 15.1%.

The Company was notified by its largest client in Mexico that it intends to utilize its internal global platform and did not renew its processing agreement with TSYS when it expired in the first quarter of 2003. The processing for this client deconverted during the third quarter of 2003. The accounts for this client will remain on TSYS' processing system through October 2003 for historical references by request of the client. This client in Mexico represents approximately 56% of TSYS' revenues from Mexico. As a result, management expects that electronic payment processing revenues for the remainder of 2003 and 2004 from Mexico will decrease when compared to electronic payment processing revenues from Mexico for 2002 and earlier in 2003.

TSYS pays TSYS de México a processing support fee for certain client relationship and network services that TSYS de México has assumed from TSYS. TSYS paid TSYS de México a processing support fee of $180,500 and $231,400 for the three months ended September 30, 2003 and 2002, respectively. TSYS paid TSYS de México a processing support fee of $560,400 and $685,100 for the nine months ended September 30, 2003 and 2002, respectively. Management expects this processing support fee to decrease, beginning in the fourth quarter of 2003, with the deconversion of TSYS' largest client in Mexico.

Results of Operations (continued)

Net Income

Net income for the three months ended September 30, 2003 increased 8.2% to $35.5 million, or basic and diluted earnings per share of $0.18, compared to $32.8 million, or basic and diluted earnings per share of $0.17, for the same period in 2002.

Net income for the nine months ended September 30, 2003 increased 12.4% to $101.6 million, or basic earnings per share of $0.52, compared to $90.3 million, or basic earnings per share of $0.46, for the same period in 2002. For the first nine months of 2003, diluted earnings per share was $0.51 compared to $0.46 diluted earnings per share for the same period last year.

The growth in net income for the quarter and nine month period ended September 30, 2003 was lower than historical growth rates due to a gain on foreign currency translation of approximately $2.1 million in 2002. Management evaluates the Company's operating performance based upon net income excluding foreign currency translation gains and losses. Management believes that net income excluding foreign currency translation gains or losses is more useful because foreign currency translation gains or losses are not in management's control.

Excluding the effect of foreign currency translation gains or losses from both years, net income growth would have been 13.7% both for the third quarter of 2003 and the nine-month period ended September 30, 2003, as compared to the same periods in 2002.

Below is the reconciliation between reported net income and adjusted net income excluding foreign currency translation gains and losses, net of tax for the three months and nine months ended September 30, 2003 and 2002:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2003	2002	**2003**	2002
Net income (as reported)	$	**35,512,189**	32,815,522	**101,555,178**	90,349,302
Adjustments:					
(Gain)/loss on foreign currency translations, net of tax		**164,073**	(1,445,824)	**(607,640)**	(1,447,710)
Adjusted net income	$	**35,676,262**	31,369,698	**100,947,538**	88,901,592
Adjusted basic earnings per share	$	**0.18**	0.16	**0.51**	0.45
Adjusted diluted earnings per share	$	**0.18**	0.16	**0.51**	0.45

Net Profit Margin

The Company's net profit margin for the third quarter of 2003 was 13.3%, compared to 13.8% for the same period last year. The Company's net profit margin for the nine months ended September 30, 2003 was 13.1%, compared to 12.7% for the same period last year.

Results of Operations (continued)

Management believes that reimbursable items distort net profit margin as defined by generally accepted accounting principles. Management evaluates the Company's operating performance based upon net margin excluding reimbursable items. Management believes that net profit margin excluding reimbursable items is more useful because reimbursable items do not impact profitability as the Company receives reimbursement for expenses incurred on behalf of its clients.

Excluding reimbursable items, the Company's net profit margin for the third quarter of 2003 was 16.9%, compared to 17.9% for the three months ended September 30, 2002. Excluding reimbursable items, the Company's net profit margin for the nine months ended September 30, 2003 was 16.8%, compared to 16.9% for the same period in 2002.

Below is the reconciliation between reported net profit margin and adjusted net profit margin excluding reimbursable items for the three months and nine months ended September 30, 2003 and 2002:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2003	2002	**2003**	2002
Net income (a)	$	**35,512,189**	32,815,522	**101,555,178**	90,349,302
Total revenues (b)	$	**266,114,824**	239,606,633	**775,166,387**	709,135,378
Net profit margin (as reported) (a)/(b)		**13.3%**	13.8%	**13.1%**	12.7%
Revenue before reimbursable items (c)	$	**210,374,177**	183,174,614	**606,313,924**	535,555,143
Adjusted net profit margin (a)/(c)		**16.9%**	17.9%	**16.7%**	16.9%

Projected Outlook for 2003

TSYS expects its 2003 net income to exceed its 2002 net income by 12-15%. The assumptions underlying 2003's net income forecast are an increase in revenues (excluding reimbursables) between 9-10%, an internal growth rate of accounts on file of existing clients of approximately 11% and a continued focus on expense management.

Liquidity and Capital Resources

The 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 and the occasional use of borrowed funds to supplement financing of capital expenditures.

Cash Flows From Operating Activities

TSYS' main source of funds is derived from operating activities, specifically net income. During the nine months ended September 30, 2003, the Company generated $169.7 million in cash from operating activities compared to $138.2 million for the same period last year.

On March 3, 2003, the Company announced that Bank One selected TSYS to upgrade its credit card processing. As part of that agreement, the Company received a $30 million payment from Bank One, which is included in billings in excess of costs and profit on uncompleted contracts on the balance sheet.

Cash Flows From Investing Activities

The major uses of cash generated from operations have been the addition of property and equipment, the internal development and purchase of computer software, investments in contract acquisition costs associated with servicing new or existing clients, and business acquisitions. The Company used $207.3 million in cash for investing activities for the nine months ended September 30, 2003, compared to $70.7 million for the same period in 2002.

Property and Equipment

Capital expenditures for property and equipment during the three month period ended September 30, 2003 were $6.1 million, compared to $5.2 million during the same period last year. For the first nine months of 2003, capital expenditures for property and equipment were $113.5 million, compared to $13.0 million during the same period last year. The increase in capital expenditures in 2003 is due to the purchase of the corporate campus. A detailed discussion of TSYS' synthetic lease for its corporate campus and subsequent termination of the lease in 2003 is provided in Off-Balance Sheet Arrangements on page 25.

On July 30, 2003, the Company announced the groundbreaking for a new TSYS data center in Knaresborough, England. The 47,000 square-foot facility will replace the current center in Harrogate, England. It will be built on three acres and includes 15,000 square feet of office space. The new data center is estimated to cost approximately $30 million and should be completed by the end of the fourth quarter of 2004.

Purchased Computer Software

Expenditures for purchased computer software were $15.7 million for the three months ended September 30, 2003, compared to $2.9 million for the same period in 2002. For the first nine months of 2003, the Company had expenditures for purchased computer software of $35.7 million compared to $22.7 million for the same period in 2002. These additions relate to annual site licenses for mainframe processing systems whose fees are based upon a measure of TSYS' computer processing capacity, commonly referred to as millions of instructions per second (MIPs).

Software Development Costs

Additions to capitalized software development costs, including enhancements to and development of TS2 processing systems, were $4.9 million for the three month period ended September 30, 2003, compared to $5.7 million for the same period in 2002. For the first nine months of 2003, additions to capitalized software development costs were $13.9 million compared to $21.6 million for the same period in 2002. The decline in the amount capitalized as software development costs in 2003, as compared to 2002, is the result of several projects being completed in 2002.

The following is a summary of the additions to software development costs by project for the three and nine months ended September 30, 2003 and 2002:

Liquidity and Capital Resources (continued)

Software Development Projects (in millions)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
TSYS ProphIT	**$ 3.6**	2.3	**10.4**	6.4
Integrated Payments	**0.3**	1.5	**0.7**	4.4
Double Byte	**-**	0.9	**0.5**	4.9
TSYS Total Commerce	**-**	0.7	**-**	3.0
Other Capitalized Software Development Costs	**1.0**	0.3	**2.3**	2.9
Total	**$ 4.9**	5.7	**13.9**	21.6

The Company continues to develop TSYS ProphIT℠, a Web-based process management system that provides direct access to account information and other system interfaces to help streamline an organization's business processes. TSYS ProphIT is currently being offered to TSYS' processing clients with general release of the core platform in the fourth quarter of 2003. Continued development of TSYS ProphIT provides increased and enhanced functionality to the core platform, to include additional customer service functions. The Company anticipates future integration of TSYS ProphIT into its other platforms beginning in 2004. The Company capitalized approximately $3.6 million for the three months ended September 30, 2003 on TSYS ProphIT, bringing the total capitalized in 2003 to $10.4 million. The Company has invested a total of $25.7 million since the project began.

The Company is developing its Integrated Payments Platform supporting the online and offline debit and stored value markets, which will give clients access to all national and regional networks, EBT programs, ATM driving and switching services for online debit processing. The Company capitalized approximately $314,000 for the three months ended September 30, 2003 on these additional systems, bringing the total capitalized in 2003 to $738,000. The Company has invested a total of $7.7 million since the project began. The Company expects to complete the system in phases. Phase 1 is expected to be completed during the fourth quarter of 2003.

Due to the complexity of the differences between the English language and Asian languages, computer systems require two bytes to store an Asian character compared to one byte in the English language. With the opening of a branch office in Japan to facilitate its marketing of card processing services, TSYS began modifying its current TS2 system to be able to accommodate language and currency differences with Asia, commonly referred to as the “double byte project.” The Company capitalized a total of $532,000 in 2003. The Company has invested a total of $10.1 million since the project began. The Company has substantially completed the core double-byte architecture.

The Company developed a new commercial card system, TSYS Total Commerce, which was built upon the architectural design of TS2. The new system provides enhanced reporting for multi-languages/currencies, and global commercial card processing for multinational corporations on a single platform. The Company has invested a total of $36.9 million. The Company placed the new system in service in late 2002.

Acquisition

On April 28, 2003, TSYS announced the acquisition of ESC for $36.0 million in cash. The Company has allocated approximately $26.0 million to goodwill, approximately $8.2 million to intangibles and the remaining amount to the net assets acquired. ESC provides targeted loyalty consulting and travel, as well as gift card and merchandise reward programs to more than 40 national and regional financial institutions in the United States. The Company believes the acquisition of ESC enhances TSYS processing services by adding distinct value differentiation for TSYS and its clients.

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 $4.6 million for the three months ended September 30, 2003, and $6.7 million for the three months ended September 30, 2002. The Company made a cash payment for processing rights of $1.5 million during the three months ended September 30, 2003. Cash payments for processing rights were $1.4 million for the three months ended September 30, 2002. Conversion cost additions were $3.1 million and $5.3 million for the three months ended September 30, 2003 and 2002, respectively.

The Company’s investments in contract acquisition costs were $17.9 million for the nine months ended September 30, 2003, and $34.3 million for the nine months ended September 30, 2002. Cash payments for processing rights were $4.5 million and $22.9 million for the nine months ended September 30, 2003 and 2002, respectively. Conversion cost additions were $13.4 million and $11.4 million for the nine months ended September 30, 2003 and 2002, respectively.

Cash Flows From Financing Activities

The major use of cash for financing activities has been the payment on long-term debt, the payment of dividends and the purchase of stock under the stock repurchase plan as described below. The main source of cash from financing activities has been the occasional use of borrowed funds. Net cash used in investing activities for the nine months ended September 30, 2003 was $16.5 million mainly as a result of the purchase of common stock and dividends. The Company used $9.2 million in cash for financing activities for the nine months ended September 30, 2002 primarily for the payment of cash dividends.

Stock Repurchase Plan

On April 15, 2003, TSYS announced that its board had approved a stock repurchase plan to purchase up to 2 million shares, which represents slightly more than five percent of the shares of TSYS stock held by shareholders other than Synovus. The shares may be purchased from time to time over the next two years will depend on various factors including price, market conditions, acquisitions and the general financial position of TSYS. Repurchased shares will be used for general corporate purposes. Through September 30, 2003, the Company has purchased 512,900 shares at an average cost of $18.49 per share.

Line of Credit

In connection with the purchase of the campus, TSYS obtained a $45.0 million long-term line of credit from a banking affiliate of Synovus. A detailed discussion is included in Related Party Transactions on page 24.

Liquidity and Capital Resources (continued)

Dividends

The Company has paid a dividend for 56 consecutive quarters. Dividends on common stock of $3.9 million were paid during the three months ended September 30, 2003, bringing the total paid in 2003 to $10.8 million. On April 17, 2003, the Company announced a 14.3% increase in its quarterly dividend from $0.0175 to $0.0200 per share. On April 18, 2002, the Company announced a 16.7% increase in its quarterly dividend from $0.0150 to $0.0175 per share.

Significant Noncash Transaction

Effective January 1, 2002, TSYS acquired TDM from Synovus in exchange for 2,175,000 newly issued shares of TSYS common stock with a market value of $43.5 million. TDM now operates as a wholly owned subsidiary of TSYS. This transaction increased Synovus' ownership of TSYS to 81.1% in 2002.

On October 15, 2002 the board of directors of TSYS approved the purchase of ProCard, Inc. (ProCard) from Synovus for $30.0 million in cash. On November 1, 2002, TSYS completed the acquisition. ProCard is a leading provider of software and Internet tools designed to assist organizations with the management of purchasing, travel and fleet card programs. ProCard's software solutions have been integrated into TSYS' processing solutions and offer TSYS the opportunity to further expand its services to ProCard's clients.

Because the acquisitions of TDM and ProCard were transactions between entities under common control, the Company is reflecting the acquisitions at historical cost in accordance with SFAS 141. In accordance with the provisions of SFAS 141, TSYS restated its financial statements for the periods that Synovus controlled both ProCard and TSYS for the ProCard acquisition only.

Foreign Exchange

TSYS operates internationally and is subject to potentially adverse movements in foreign currency exchange rates. Since December 2000, TSYS has not entered into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes.

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 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 1.8:1. At September 30, 2003, TSYS had working capital of $102.8 million compared to $152.0 million at December 31, 2002.

Recent Accounting Pronouncements

In June 2001, the FASB issued Statement No. 143 (SFAS No. 143), "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company must also record a corresponding asset that depreciates over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company adopted SFAS No. 143 on January 1, 2003. The adoption of SFAS 143 did not have a material effect on the Company's financial position, results of operations or cash flows.

In April 2002, the FASB issued Statement No. 145 (SFAS No. 145), "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 are applied in fiscal years beginning after May 15, 2002. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002. The adoption of SFAS 145 did not have a material effect on the Company's financial position, results of operations or cash flows.

In June 2002, the FASB issued Statement No. 146 (SFAS No. 146),"Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. Interpretation No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of Interpretation No. 45 did not have a material effect on the Company's financial position, results of operations or cash flows.

At the November 21, 2002 Emerging Issues Task Force (EITF) meeting, the Task Force ratified as a consensus the tentative conclusions it reached at the October 25, 2002 EITF meeting regarding Emerging Issues Task Force No. 00-21 (EITF No. 00-21), "Accounting for Revenue Arrangements with Multiple Deliverables." EITF No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Those activities may involve the delivery or performance of multiple products, services, and/or rights to use assets, and performance may occur at different points in time or over different periods of time. The arrangements are often accompanied by initial installation, initiation, or activation services and generally involve either a fixed fee or a fixed fee coupled with a continuing payment stream. The continuing payment stream generally corresponds to the continuing performance and may be fixed, variable based on future performance, or composed of a combination of fixed and variable payments. EITF No. 00-21 addresses how to account for those arrangements. EITF No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Entities may also elect to report the change in accounting as a cumulative effect adjustment, in which case disclosure should be made in periods subsequent to the date of initial application of the amount of recognized revenue that was previously included in the cumulative effect adjustment. The adoption of EITF 00-21 did not significantly impact the Company's financial position, results of operations or cash flows.

In December 2002, the FASB issued Statement No. 148 (SFAS No. 148), "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No. 148 amends FASB Statement No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required beginning with the fiscal years ending after December 15, 2002 and are included in the notes to the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For enterprises such as the Company with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise in the first reporting period after December 15, 2003. A detailed discussion of TSYS' synthetic lease for its corporate campus and subsequent termination of the lease in 2003 is provided in Off-Balance Sheet Arrangements on page 25.

In April 2003, the FASB issued Statement No. 149 (SFAS No. 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement will be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company's financial position, results of operations or cash flows.

Recent Accounting Pronouncements (continued)

In May 2003, the FASB issued Statement No. 150 (SFAS No. 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements." SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS No. 150 did not impact the Company's financial position, results of operations or cash flows.

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, statements regarding the expected expansion of its position in the consumer card, debit card, retail card and commercial card arenas, TSYS' belief with respect to the uniqueness of the TSYS/Sears processing relationship, the projected impact of TSYS' agreement with Bank One on its earnings per share for 2004 and 2005 and thereafter through the payment term of the license, the expected growth in net income for the year 2003, the expected cost and time of completion of the new data center located in England, the expected completion dates for new processing systems and the assumptions underlying such statements, including, with respect to TSYS' expected increase in net income for 2003; an increase in revenues (excluding reimbursables) between 9-10%; an internal growth rate of accounts of existing clients of approximately 11%; and continued focus on expense management. 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," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-Looking Statements (continued)

Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. A number of important factors could cause actual results to differ materially from those contemplated by the forward-looking statements in this filing. Many of these factors are beyond TSYS' ability to control or predict. The factors include, but are not limited to: (i) delays in converting Bank One to TSYS' platforms; (ii) TSYS is unable to modify its software to meet Bank One's specifications; (iii) TSYS' software is unable to operate in Bank One's operating environment; (iv) revenues are lower than anticipated; (v) adverse developments with respect to TSYS' sub-prime or retail clients; (vi) lower than anticipated internal growth rates for TSYS' existing clients; (vii) TSYS' inability to control expenses and increase market share; (viii) TSYS' inability to successfully bring new products to market, including, but not limited to stored value products, e-commerce products, loan processing products and other processing services; (ix) the inability of TSYS to grow its business through acquisitions or successfully integrate acquisitions; (x) TSYS' inability to increase the revenues derived from international sources; (xi) adverse developments with respect to entering into contracts with new clients and retaining current clients; (xii) the merger of TSYS clients with entities that are not TSYS clients or the sale of portfolios by TSYS clients to entities that are not TSYS clients; (xiii) TSYS' inability to anticipate and respond to technological changes, particularly with respect to e-commerce; (xiv) adverse developments with respect to the successful conversion of clients; (xv) the absence of significant changes in foreign exchange spreads between the United States and the countries TSYS transacts business in, to include Mexico, United Kingdom, Japan, Canada and the European Union; (xvi) changes in consumer spending, borrowing and saving habits, including a shift from credit to debit cards; (xvii) changes in laws, regulations, credit card association rules or other industry standards affecting TSYS' business which require significant product redevelopment efforts; (xviii) the effect of changes in accounting policies and practices as may be adopted by the Financial Accounting Standards Board or the Securities and Exchange Commission; (xix) the costs and effects of litigation; (xx) adverse developments with respect to the credit card industry in general; (xxi) TSYS' inability to successfully manage any impact from slowing economic conditions or consumer spending; (xxii) the occurrence of catastrophic events that would impact TSYS' or its major customers' operating facilities, communications systems and technology, or that has a material negative impact on current economic conditions or levels of consumer spending; (xxiii) successfully managing the potential both for patent protection and patent liability in the context of rapidly developing legal framework for expansive software patent protection; (xxiv) hostilities increase in the Middle East or elsewhere; (xxv) Vital's earnings are lower than anticipated; and (xxvi) overall market conditions.

Such forward-looking statements speak only as of the date on which such statements are made, and TSYS undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events.

TOTAL SYSTEM SERVICES, INC.
Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

TSYS is exposed to foreign exchange risk because it has assets, liabilities, revenues and expenses denominated in foreign currencies including the Euro, British Pound, Mexican Peso, Canadian Dollar and Japanese Yen. 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 rates for each reporting period. Net exchange gains or losses resulting from the translation of assets and liabilities of TSYS' foreign operations, net of tax, are accumulated in a separate section of shareholders' equity titled accumulated other comprehensive income or loss. The amount of other comprehensive income for the three months ended September 30, 2003 was $470,000, compared to $70,000 for the three months ended September 30, 2002. The amount of other comprehensive income for the nine months ended September 30, 2003 was $2.1 million, compared to $3.1 million for the nine months ended September 30, 2002. Currently, TSYS does not use financial instruments to hedge its exposure to exchange rate changes.

The carrying value of the net assets of its foreign operations in Europe, Mexico, Canada and Japan was approximately (in U.S. dollars) $111.9 million, $3.6 million, $176,000 and $10.7 million, respectively, at September 30, 2003.

The Company also 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 Pound Sterling (BPS). As the Company translates the foreign-denominated cash balances into US 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 majority of the translation gain of $916,000 for the first nine months of September 30, 2003 relates to the translation of cash accounts. The balance of the foreign-denominated cash accounts subject to risk of translation gains or losses at September 30, 2003 was approximately $364,000, the majority of which is denominated in BPS.

The following represents the potential effect on income before income taxes of hypothetical shifts in the foreign currency exchange rate between the BPS and the U.S. dollar of plus or minus 100 basis points, 500 basis points and 1,000 points based on the foreign-denominated cash account balance at September 30, 2003.

		Effect of Basis Point Change					
		Increase in basis point of			Decrease in basis point of		
		100	500	1,000	100	500	1,000
Effect on income before income taxes	$	(3,600)	(18,200)	(36,400)	3,600	18,200	36,400

The foreign currency risks associated with other currencies is not significant.

Interest Rate Risk

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

In connection with the purchase of the campus, TSYS obtained a $45.0 million long-term line of credit from a banking affiliate of Synovus. The line is an automatic draw down facility. The interest rate for the line of credit is the London Interbank Offered Rate (LIBOR) plus 150 basis points. In addition, there is a charge of 15 basis points on any funds unused. As the LIBOR rate changes, TSYS will be subject to interest rate risk. At September 30, 2003, TSYS did not have an outstanding balance on the line of credit.

Concentration of Credit Risk

TSYS works to maintain a large and diverse client base across various industries to minimize the credit risk of any one client to TSYS' accounts receivable amounts. In addition, TSYS performs ongoing credit evaluations of its certain clients' and certain suppliers' financial condition. TSYS does, however, have two major customers that account for a large portion of its revenues, which subject it to credit risk.

TOTAL SYSTEM SERVICES, INC.
Item 4 – Management's Analysis of Disclosure 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. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective alerting them in timely fashion to material information relating to TSYS (including its consolidated subsidiaries) required to be included in our periodic Securities and Exchange Commission filings. There have been no changes in TSYS' internal control over financial reporting, which could materially affect, or are reasonably likely to materially affect, internal control over financial reporting.

TOTAL SYSTEM SERVICES, INC.
Part II - Other Information

Item 6 - Exhibits and Reports on Form 8-K

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

b) Forms 8-K since the previous Form 10-Q filing.

1. The report dated October 14, 2003 included the following event:

On October 14, 2003, Total System Services, Inc. ("Registrant") issued a press release and held an investor call and webcast to disclose financial results for the third quarter ended September 30, 2003.

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 12, 2003

by: /s/ Richard W. Ussery

Richard W. Ussery
Chairman of the Board
and Chief Executive Officer

Date: November 12, 2003

by: /s/ James B. Lipham

James B. Lipham
Chief Financial Officer

TOTAL SYSTEM SERVICES, INC.
Exhibit Index

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