

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

(Mark One)

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

For the quarterly period ended: June 30, 2005

OR

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

For the transition period from _____ To _____

Commission file number 1-10254



Total System Services, Inc.

www.tsys.com

(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) 649-2262

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes 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: August 1, 2005

Common Stock, \$0.10 par value

197,202,781


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

(in thousands, except per share information)	June 30, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents (includes \$86.2 million and \$176.6 million on deposit with a related party at 2005 and 2004, respectively)	\$ 143,725	231,806
Restricted cash (includes \$5.3 million and \$5.7 million on deposit with a related party at 2005 and 2004, respectively)	27,841	24,993
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of \$12.5 million and \$6.8 million at 2005 and 2004, respectively; (includes \$0.1 million and \$0.9 million from a related party at 2005 and 2004, respectively)	209,546	144,827
Deferred income tax assets	6,169	10,791
Prepaid expenses and other current assets	48,135	35,739
Total current assets	435,416	448,156
Computer software, net of accumulated amortization of \$284.7 million and \$252.9 million at 2005 and 2004, respectively	290,585	268,647
Property and equipment, net of accumulated depreciation and amortization of \$174.1 million and \$158.7 million at 2005 and 2004, respectively	272,092	263,584
Contract acquisition costs, net	159,767	132,428
Goodwill, net	111,988	70,561
Other intangible assets, net of accumulated amortization of \$3.7 million and \$2.2 million at 2005 and 2004, respectively	15,323	4,692
Equity investments	3,888	54,400
Other assets	33,751	39,475
Total assets	\$ 1,322,810	1,281,943

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(in thousands, except per share information)	June 30, 2005	December 31, 2004
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable (includes \$0.1 million and \$0.3 million payable to related parties at 2005 and 2004, respectively)	\$ 45,762	75,188
Accrued salaries and employee benefits	47,821	46,725
Current portion of long-term debt, obligations under capital leases and software obligations	2,123	1,828
Other current liabilities (includes \$9.6 million and \$6.6 million payable to related parties at 2005 and 2004, respectively)	155,760	154,162
Total current liabilities	<u>251,466</u>	<u>277,903</u>
Obligations under capital leases and software obligations, excluding current portion	3,455	4,508
Long-term debt	91	-
Deferred income tax liabilities	126,698	131,106
Total liabilities	<u>381,710</u>	<u>413,517</u>
Minority interests in consolidated subsidiaries	<u>3,809</u>	<u>3,814</u>
Shareholders' equity:		
Common stock - \$0.10 par value. Authorized 600,000 shares; 197,809 and 197,587 issued at 2005 and 2004, respectively; 197,092 and 196,849 outstanding at 2005 and 2004, respectively	19,781	19,759
Additional paid-in capital	49,906	44,732
Unamortized restricted stock awards	(4,549)	-
Accumulated other comprehensive income	10,006	15,373
Treasury stock (shares of 717 and 738 at 2005 and 2004, respectively)	(13,233)	(13,573)
Retained earnings	875,380	798,321
Total shareholders' equity	<u>937,291</u>	<u>864,612</u>
Total liabilities and shareholders' equity	<u>\$ 1,322,810</u>	<u>1,281,943</u>

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(in thousands, except per share information)	Three months ended June 30,	
	2005	2004
Revenues:		
Electronic payment processing services (includes \$1.2 million and \$1.3 million from related parties for 2005 and 2004, respectively)	\$ 217,048	184,987
Merchant services (includes \$3.9 million from related parties for 2004)	68,696	6,876
Other services (includes \$1.5 million and \$1.7 million from related parties for 2005 and 2004, respectively)	45,324	41,827
Revenues before reimbursable items	331,068	233,690
Reimbursable items (includes \$0.4 million and \$2.4 million from related parties for 2005 and 2004, respectively)	79,175	55,932
Total revenues	410,243	289,622
Expenses:		
Salaries and other personnel expense	117,201	82,224
Net occupancy and equipment expense	68,496	66,493
Other operating expenses (includes \$2.2 million and \$2.3 million to related parties for 2005 and 2004, respectively)	69,025	37,701
Expenses before reimbursable items	254,722	186,418
Reimbursable items	79,175	55,932
Total expenses	333,897	242,350
Operating income	76,346	47,272
Nonoperating income (expense):		
Interest income (includes \$0.3 million and \$0.1 million from related parties for 2005 and 2004, respectively)	1,078	537
Interest expense	(105)	(39)
Loss on foreign currency translation, net	(494)	(30)
Total nonoperating income	479	468
Income before income taxes, minority interest and equity in income of joint ventures	76,825	47,740
Income taxes	26,729	18,471
Minority interests in consolidated subsidiaries' net income	(43)	(67)
Equity in income of joint ventures	590	6,684
Net income	\$ 50,643	35,886
Basic earnings per share	\$ 0.26	0.18
Diluted earnings per share	\$ 0.26	0.18
Weighted average common shares outstanding	197,078	196,846
Increase due to assumed issuance of shares related to stock options outstanding	217	329
Weighted average common and common equivalent shares outstanding	197,295	197,175

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(in thousands, except per share information)	Six months ended June 30,	
	2005	2004
Revenues:		
Electronic payment processing services (includes \$2.4 million from related parties for both 2005 and 2004, respectively)	\$ 421,805	362,378
Merchant services (includes \$2.4 million and \$7.1 million from related parties for 2005 and 2004, respectively)	95,801	13,241
Other services (includes \$3.0 million and \$2.9 million from related parties for 2005 and 2004, respectively)	93,838	82,675
Revenues before reimbursable items	611,444	458,294
Reimbursable items (includes \$2.2 million and \$4.6 million from related parties for 2005 and 2004, respectively)	148,783	116,564
Total revenues	760,227	574,858
Expenses:		
Salaries and other personnel expense	214,718	170,086
Net occupancy and equipment expense	133,889	124,542
Other operating expenses (includes \$4.4 million and \$4.6 million to related parties for 2005 and 2004, respectively)	120,185	72,252
Expenses before reimbursable items	468,792	366,880
Reimbursable items	148,783	116,564
Total expenses	617,575	483,444
Operating income	142,652	91,414
Nonoperating income (expense):		
Interest income (includes \$0.8 million and \$0.3 million from related parties for 2005 and 2004, respectively)	2,297	1,042
Interest expense	(175)	(782)
Loss on foreign currency translation, net	(827)	(101)
Total nonoperating income	1,295	159
Income before income taxes, minority interest and equity in income of joint ventures	143,947	91,573
Income taxes	51,409	35,226
Minority interests in consolidated subsidiaries' net income	(112)	(160)
Equity in income of joint ventures	4,340	12,260
Net income	\$ 96,766	68,447
Basic earnings per share	\$ 0.49	0.35
Diluted earnings per share	\$ 0.49	0.35
Weighted average common shares outstanding	197,050	196,845
Increase due to assumed issuance of shares related to stock options outstanding	215	350
Weighted average common and common equivalent shares outstanding	197,265	197,195

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(in thousands)	Six months ended June 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 96,766	68,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests in consolidated subsidiaries' net income	112	160
Loss on foreign currency translation, net	827	101
Equity in income of joint ventures	(4,340)	(12,260)
Depreciation and amortization	69,522	52,781
Impairment of developed software	3,137	10,059
Provisions for (recoveries of) bad debt expenses and billing adjustments	2,688	(1,373)
Charges for transaction processing provisions	4,595	4,865
Deferred income tax expense	4,622	9,938
Loss on disposal of equipment, net	1,725	378
(Increase) decrease in:		
Accounts receivable	(35,538)	4,950
Prepaid expenses and other assets	1,142	(17,645)
Increase (decrease) in:		
Accounts payable	(47,132)	10,759
Accrued salaries and employee benefits	(15,124)	(13,811)
Billings in excess of costs and profits on uncompleted contracts	-	(16,166)
Other current liabilities	(45,249)	11,272
Net cash provided by operating activities	37,753	112,455
Cash flows from investing activities:		
Purchases of property and equipment, net	(20,383)	(39,326)
Additions to licensed computer software from vendors	(10,647)	(14,001)
Additions to internally developed computer software	(10,388)	(3,703)
Cash acquired in acquisition	38,799	-
Cash used in acquisition	(95,782)	-
Dividends received from joint ventures	1,659	15,876
Contract acquisition costs	(10,981)	(3,283)
Net cash used in investing activities	(107,723)	(44,437)

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(in thousands)	Six months ended June 30,	
	2005	2004
Cash flows from financing activities:		
Proceeds from borrowing of long-term debt	\$ 48,142	-
Principal payments on long-term debt borrowings	(48,132)	-
Principal payments on capital lease obligations and software obligations	(791)	(42,039)
Dividends paid on common stock (includes \$12.8 million and \$6.4 million paid to related parties during 2005 and 2004, respectively)	(15,757)	(7,873)
Proceeds from exercise of stock options	427	1,192
Purchases of common stock	-	(1,188)
Net cash used in financing activities	(16,111)	(49,908)
Effect of exchange rate changes on cash and cash equivalents	(2,000)	946
Net (decrease) increase in cash and cash equivalents	\$ (88,081)	19,056
Cash and cash equivalents at beginning of year	231,806	122,874
Cash and cash equivalents at end of period	\$ 143,725	141,930
Cash paid for interest	\$ 175	782
Cash paid for income taxes (net of refunds)	\$ 64,439	17,667

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[®] or the Company); its wholly owned subsidiaries, Columbus Depot Equipment CompanySM (CDECSM), Columbus Productions, Inc.SM (CPI), TSYS Canada, Inc.SM (TSYS Canada), TSYS Total Debt Management, Inc. (TDM), ProCard, Inc. (ProCard), TSYS Japan Co., Ltd. (TSYS Japan), Enhancement Services Corporation (ESC), TSYS Technology Center, Inc. (TTC), TSYS Prepaid, Inc. (TPI) and Vital Processing Services, L.L.C. (Vital) and its wholly owned and majority owned subsidiaries; and TSYS' 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. 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. 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 2004 annual report previously filed on Form 10-K. Results of interim periods are not necessarily indicative of results to be expected for the year.

Certain reclassifications have been made to the 2004 financial statements to conform to the presentation adopted in 2005.

Note 2 - Supplementary Balance Sheet Information

Cash and cash equivalent balances are summarized as follows:

<u>(in thousands)</u>	<u>June 30, 2005</u>	<u>December 31, 2004</u>
Cash and cash equivalents in domestic accounts	\$ 110,065	177,117
Cash and cash equivalents in foreign accounts	33,660	54,689
Total	<u>\$ 143,725</u>	<u>231,806</u>

Notes to Unaudited Consolidated Financial Statements (continued)

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:

(in thousands)	June 30, 2005	December 31, 2004
Prepaid expenses	\$ 16,213	11,767
Supplies Inventory	13,962	7,646
Other	17,960	16,326
Total	\$ 48,135	35,739

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

(in thousands)	June 30, 2005	December 31, 2004
Payments for processing rights, net	\$ 115,349	91,787
Conversion costs, net	44,418	40,641
Total	\$ 159,767	132,428

Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was \$3.7 million and \$3.4 million for the three months ended June 30, 2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, amortization related to payments for processing rights was \$7.1 million and \$6.8 million, respectively.

Amortization related to conversion costs, which is recorded in other operating expenses, was \$3.1 million and \$2.8 million for the three months ended June 30, 2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, amortization expense related to conversion costs was \$6.0 million and \$5.5 million, respectively.

Significant components of other current liabilities are summarized as follows:

(in thousands)	June 30, 2005	December 31, 2004
Accrued expenses	\$ 55,854	43,229
Client liabilities	27,765	24,660
Deferred revenues	22,324	27,720
Dividends payable	11,824	7,874
Transaction processing provisions	9,521	9,284
Client postage deposits	6,020	6,184
Income taxes payable	3,278	21,279
Other	19,174	13,932
Total	\$ 155,760	154,162

Note 3 - Comprehensive Income

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

Notes to Unaudited Consolidated Financial Statements (continued)

Comprehensive income for the three and six months ended June 30 is as follows:

(in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net income	\$ 50,643	35,886	96,766	68,447
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(2,944)	632	(5,367)	2,562
Total	\$ 47,699	36,518	91,399	71,009

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

(in thousands)	Balance at December 31, 2004	Pretax amount	Tax effect	Balance at June 30, 2005
Foreign currency translation adjustments	\$15,373	(8,334)	2,967	\$10,006

Note 4 – Segment Reporting and Major Customer

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 maker (CODM) uses to make resource allocation and strategic decisions. The CODM at TSYS consists of the chairman of the board, the chief executive officer, the president and the three senior executive vice presidents.

On March 1, 2005, TSYS acquired the remaining 50% equity stake that Visa U.S.A. held in Vital. As a result of the acquisition, the Company revised its segment information to reflect the information that the CODM uses to make resource allocations and strategic decisions. The revision included adding a new segment, merchant processing services, to include the information regarding Vital.

Through online accounting and electronic payment processing systems, TSYS provides electronic payment processing and other related services to card-issuing institutions in the United States, Mexico, Canada, Honduras, Europe and Puerto Rico. The Company has three reportable segments: domestic-based support services, international-based support services and merchant processing services. Domestic-based support services include electronic payment processing services and other services provided from the United States. Domestic-based support services segment includes the financial results of TSYS, excluding its foreign branch offices, and including the following subsidiaries: CDEC, CPI, TSYS Canada, TDM, ProCard, ESC, TTC and TPI.

International-based support services include electronic payment processing and other services provided outside the United States. International-based support services include the financial results of GP Net, TSYS Japan and TSYS' branch offices in Europe and Japan. TSYS' share of the equity earnings of its Total System Services de México, S.A. de C.V. joint venture is included in international-based

Notes to Unaudited Consolidated Financial Statements (continued)

support services. Merchant processing services include the financial results of Vital. For periods prior to the acquisition, TSYS has reclassified TSYS' share of its equity earnings of Vital from domestic-based support services to merchant processing services.

Operating Segments (in thousands)	Domestic-based support services	International-based support services	Merchant processing services	Consolidated
At June 30, 2005				
Identifiable assets	\$ 1,239,956	180,384	200,936	\$ 1,621,276
Intersegment eliminations	(298,461)	(1)	(4)	(298,466)
Total assets	<u>\$ 941,495</u>	<u>180,383</u>	<u>200,932</u>	<u>\$ 1,322,810</u>
At December 31, 2004				
Identifiable assets	\$ 1,265,567	169,877	-	\$ 1,435,444
Intersegment eliminations	(153,501)	-	-	(153,501)
Total assets	<u>\$ 1,112,066</u>	<u>169,877</u>	<u>-</u>	<u>\$ 1,281,943</u>
Three months ended June 30, 2005				
Revenue before reimbursables	\$ 239,567	30,480	64,864	\$ 334,911
Intersegment revenue	(3,797)	-	(46)	(3,843)
Revenues before reimbursables from external customers	<u>\$ 235,770</u>	<u>30,480</u>	<u>64,818</u>	<u>\$ 331,068</u>
Segment total revenue	\$ 305,284	35,128	76,103	\$ 416,515
Intersegment revenue	(6,226)	-	(46)	(6,272)
Revenue from external customers	<u>\$ 299,058</u>	<u>35,128</u>	<u>76,057</u>	<u>\$ 410,243</u>
Depreciation and amortization	\$ 28,096	4,248	4,439	\$ 36,783
Intersegment expenses	\$ (10,709)	9,383	7,605	\$ (6,279)
Segment operating income	<u>\$ 63,099</u>	<u>(835)</u>	<u>14,082</u>	<u>\$ 76,346</u>
Income taxes	\$ 21,897	(572)	5,404	\$ 26,729
Equity in income of joint venture	\$ -	590	-	\$ 590
Net income	<u>\$ 42,118</u>	<u>(336)</u>	<u>8,861</u>	<u>\$ 50,643</u>
Three months ended June 30, 2004				
Revenue before reimbursables	\$ 207,894	25,796	-	\$ 233,690
Intersegment revenue	-	-	-	-
Revenues before reimbursables from external customers	<u>\$ 207,894</u>	<u>25,796</u>	<u>-</u>	<u>\$ 233,690</u>
Segment total revenue	\$ 262,113	27,511	-	\$ 289,624
Intersegment revenue	(2)	-	-	(2)
Revenue from external customers	<u>\$ 262,111</u>	<u>27,511</u>	<u>-</u>	<u>\$ 289,622</u>
Depreciation and amortization	\$ 23,484	3,187	-	\$ 26,671
Intersegment expenses	\$ (578)	578	-	\$ -
Segment operating income	<u>\$ 40,498</u>	<u>6,774</u>	<u>-</u>	<u>\$ 47,272</u>
Income taxes	\$ 13,758	2,537	2,176	\$ 18,471
Equity in income of joint ventures	\$ -	318	6,366	\$ 6,684
Net income	<u>\$ 27,212</u>	<u>4,485</u>	<u>4,189</u>	<u>\$ 35,886</u>

Notes to Unaudited Consolidated Financial Statements (continued)

	Domestic- based support services	International- based support services	Merchant processing services	Consolidated
Six months ended June 30 , 2005				
Revenue before reimbursables	\$ 469,089	61,328	86,152	\$ 616,569
Intersegment revenue	(5,079)	-	(46)	(5,125)
Revenues before reimbursables from external customers	\$ 464,010	61,328	86,106	\$ 611,444
Segment total revenue	\$ 595,810	71,743	100,929	\$ 768,482
Intersegment revenue	(8,209)	-	(46)	(8,255)
Revenue from external customers	\$ 587,601	71,743	100,883	\$ 760,227
Depreciation and amortization	\$ 55,555	8,016	5,951	\$ 69,522
Intersegment expenses	\$ (19,234)	17,538	9,958	\$ 8,262
Segment operating income	\$ 123,511	2,006	17,135	\$ 142,652
Income taxes	\$ 42,628	1,067	7,714	\$ 51,409
Equity in income of joint ventures	\$ -	1,099	3,241	\$ 4,340
Net income	\$ 82,441	1,419	12,906	\$ 96,766
Six months ended June 30 , 2004				
Revenue before reimbursables	\$ 409,512	48,782	-	\$ 458,294
Intersegment revenue	-	-	-	-
Revenues before reimbursables from external customers	\$ 409,512	48,782	-	\$ 458,294
Segment total revenue	\$ 522,733	52,129	-	\$ 574,862
Intersegment revenue	(4)	-	-	(4)
Revenue from external customers	\$ 522,729	52,129	-	\$ 574,858
Depreciation and amortization	\$ 46,763	6,018	-	\$ 52,781
Intersegment expenses	\$ (1,148)	1,148	-	\$ -
Segment operating income	\$ 80,071	11,343	-	\$ 91,414
Income taxes	\$ 27,140	4,130	3,956	\$ 35,226
Equity in income of joint ventures	\$ -	693	11,567	\$ 12,260
Net income	\$ 53,236	7,602	7,609	\$ 68,447

Revenues for domestic-based support 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 support 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 six months ended June 30, 2005 and 2004, respectively, based on the domicile of customers.

Notes to Unaudited Consolidated Financial Statements (continued)

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
United States	\$ 350.1	237.2	640.1	474.3
Europe	31.3	24.2	64.4	45.5
Canada*	22.4	21.3	43.5	41.0
Japan	3.9	3.4	7.6	6.9
Mexico	1.7	2.9	3.4	5.8
Other	0.8	0.6	1.2	1.4
Totals	\$ 410.2	289.6	760.2	574.9

* These revenues in 2004 include those generated from the Caribbean accounts owned by a Canadian institution.

The following table reconciles geographic revenues to revenues by reporting segment for the three months ended June 30, 2005 and 2004, respectively, based on the domicile of customers.

(in millions):	Domestic-based support services		International-based support services		Merchant processing services	
	2005	2004	2005	2004	2005	2004
United States	\$ 274.3	237.2	-	-	75.8	-
Europe	0.1	0.1	31.2	24.1	-	-
Canada*	22.3	21.3	-	-	0.1	-
Japan	-	-	3.9	3.4	-	-
Mexico	1.7	2.9	-	-	-	-
Other	0.6	0.6	-	-	0.2	-
	\$ 299.0	262.1	35.1	27.5	76.1	-

The following table reconciles geographic revenues to revenues by reporting segment for the six months ended June 30, 2005 and 2004, respectively, based on the domicile of customers.

(in millions):	Domestic-based support services		International-based support services		Merchant processing services	
	2005	2004	2005	2004	2005	2004
United States	\$ 539.6	474.3	-	-	100.5	-
Europe	0.3	0.2	64.1	45.3	-	-
Canada*	43.3	41.0	-	-	0.2	-
Japan	-	-	7.6	6.9	-	-
Mexico	3.4	5.8	-	-	-	-
Other	1.0	1.4	-	-	0.2	-
	\$ 587.6	522.7	71.7	52.2	100.9	-

* 2004 revenues include those generated from the Caribbean accounts owned by a Canadian institution.

Notes to Unaudited Consolidated Financial Statements (continued)

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

(in millions)	At June 30, 2005	At December 31, 2004
United States	\$ 211.3	200.6
Europe	58.9	60.8
Japan	1.8	2.1
Canada	0.1	0.1
Totals	\$ 272.1	263.6

Major Customer

For the three months ended June 30, 2005, the Company had one major customer which accounted for approximately 23.8%, or \$97.8 million, of total revenues. For the three months ended June 30, 2004, TSYS had one major customer that accounted for 19.0%, or \$54.9 million, of total revenues. Revenues from this major customer for the periods reported are attributable to the domestic-based support services segment and merchant processing services.

For the six months ended June 30, 2005, the Company had one major customer which accounted for approximately 22.4%, or \$170.0 million, of total revenues. For the six months ended June 30, 2004, TSYS had one major customer that accounted for 18.6%, or \$107.2 million, of total revenues.

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 and six months ended June 30, 2005 and 2004, respectively, if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards 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.

Notes to Unaudited Consolidated Financial Statements (continued)

(in thousands, except per share data)	Three months ended		Six months ended	
	June 30		June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income, as reported	\$ 50,643	35,886	96,766	68,447
Add: Stock-based employee compensation expense, net of tax	184	-	365	-
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax effects	1,236	1,182	2,623	2,509
Net income, as adjusted	\$ <u>49,591</u>	<u>34,704</u>	<u>94,508</u>	<u>65,938</u>
Earnings per share:				
Basic – as reported	\$ <u>0.26</u>	<u>0.18</u>	<u>0.49</u>	<u>0.35</u>
Basic – as adjusted	\$ <u>0.25</u>	<u>0.18</u>	<u>0.48</u>	<u>0.33</u>
Diluted – as reported	\$ <u>0.26</u>	<u>0.18</u>	<u>0.49</u>	<u>0.35</u>
Diluted – as adjusted	\$ <u>0.25</u>	<u>0.18</u>	<u>0.48</u>	<u>0.33</u>

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised) (SFAS No. 123R) “Share-Based Payment.” SFAS No. 123R will require the Company to recognize compensation expense for the unvested portion for outstanding stock-based compensation granted in the form of stock options based on the grant-date fair value of those awards calculated under SFAS No. 123 for pro forma disclosures.

On April 14, 2005, the Securities and Exchange Commission (SEC) approved a rule that delays the effective date of SFAS No. 123R for public companies that do not file as small business issuers until the first annual or interim reporting period of the first fiscal year that begins on or after June 15, 2005. The Company plans to adopt SFAS No. 123R on January 1, 2006.

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 June 30, 2005, TSYS did not have an outstanding balance on the line of credit.

Notes to Unaudited Consolidated Financial Statements (continued)

Note 7 - Supplementary Cash Flow Information

Cash used for contract acquisition costs for the six months ended June 30, 2005 and 2004, respectively, are summarized as follows:

(in thousands)	June 30, 2005	June 30, 2004
Conversion costs	\$ 10,981	3,283
Payments for processing rights	-	-
Total	\$ 10,981	3,283

Note 8 – Legal Proceedings

The Company is subject to lawsuits, claims and other complaints arising out of the ordinary conduct of its business. In the opinion of management, based in part upon the advise of legal counsel, all matters are believed to be adequately covered by insurance, or if not covered, are believed to be without merit or are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably. The Company establishes reserves for expected future litigation exposures that TSYS determines to be both probable and reasonably estimable.

The Company has received notification from the United States Attorneys' Office for the Northern District of California that the United States Department of Justice is investigating whether the Company and/or one of its large credit card processing clients violated the False Claims Act, 31 U.S.C. §§3729-33, in connection with mailings made on behalf of the client from July 1997 through November 2001. The subject matter of the investigation relates to the U.S. Postal Service's Move Update Requirements. In general, the Postal Service's Move Update Requirements are designed to reduce the volume of mail that is returned to sender as undeliverable as addressed. In effect, these requirements provide, among other things, various procedures that may be utilized to maintain the accuracy of mailing lists in exchange for discounts on postal rates. The Company has received a subpoena from the Office of the Inspector General of the U.S. Postal Service, and has produced documents responsive to the subpoena. The Company continues to cooperate with the Department of Justice in the investigation, and there can be no assurance as to the timing or outcome of the investigation, including whether the investigation will result in any criminal or civil fines, penalties, judgments or treble damages or other claims against the Company. The Company established a reserve during the quarter ended March 31, 2005 relating to this investigation. However, there can be no assurance that the Company will not suffer a loss in connection with this investigation in an amount exceeding such reserve or that the Company will not be required to reserve additional amounts in future periods.

Note 9 – Business Combinations

Vital Processing Services, L.L.C.

Vital Processing Services, L.L.C, a limited liability company, was established in May 1996 as a 50/50 merchant processing joint venture between TSYS and Visa U.S.A. ("Visa"). Vital 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.

Notes to Unaudited Consolidated Financial Statements (continued)

On March 1, 2005, TSYS acquired the remaining 50% of Vital from Visa for \$95.8 million in cash, including \$782,000 of direct acquisition costs. Vital is now a separate, wholly owned subsidiary of TSYS. As a result of the acquisition of control of Vital, TSYS changed from the equity method of accounting for the investment in Vital and began consolidating Vital's balance sheet and results of operations in the statements of income effective March 1, 2005. In accordance with authoritative accounting guidelines, TSYS recorded the acquisition of the incremental 50% interest as a business combination, requiring that TSYS allocate the purchase price to the assets acquired and liabilities assumed based on their relative fair values. The Company is in the process of finalizing the purchase price allocation and has preliminarily allocated approximately \$37.8 million to goodwill, approximately \$30.5 million to other identifiable intangible assets and the remaining amount to the assets and liabilities acquired. Of the \$30.5 million other identifiable intangible assets, the Company has allocated \$18.5 million to computer software and the remaining amount to other intangible assets. The Company believes the acquisition of Vital allows TSYS to be a complete provider of value-based services at both ends of the payment chain and strengthens the relationship TSYS enjoys with some of world's largest card issuers by placing them closer to the point of sale. Revenues associated with Vital are included in merchant services and are classified in merchant processing services for segment reporting purposes.

The Company is in the process of completing its purchase price allocation related to the acquisition. Since TSYS acquired less than 100% of the outstanding shares of the acquired enterprise, the valuation of assets acquired and liabilities assumed in the acquisition was based on a pro rata allocation of the fair values of the assets acquired and liabilities assumed and the historical financial statement carrying amounts of the assets and liabilities of the acquired enterprise. As a result, TSYS recorded the fair value of the 50% interest of Vital's assets acquired and liabilities assumed as of March 1, 2005. The Company recorded the remaining 50% interest of Vital's assets and liabilities at historical carrying values. The preliminary purchase price allocation is presented below:

(in thousands)	
Cash and cash equivalents	\$19,399
Intangible assets	30,500
Goodwill	37,757
Other assets	39,332
Total assets acquired	126,988
Other liabilities	31,157
Total liabilities assumed	31,157
Minority interest	49
Net assets acquired	\$95,782

TSYS Prepaid, Inc.

On August 2, 2004, TSYS completed the acquisition of Clarity Payment Solutions, Inc. (Clarity) for \$53.0 million in cash and had direct acquisition costs in the amount of \$515,000. Clarity was renamed TSYS Prepaid, Inc. (TSYS Prepaid). The Company is in the process of finalizing the purchase price allocation and has preliminarily allocated approximately \$39.6 million to goodwill, approximately \$10.9 million to other intangibles and the remaining amount to the assets and liabilities acquired. Of the \$10.9 million intangibles, the Company has allocated \$8.5 million to computer software and the remaining amount to other intangible assets. TSYS Prepaid is a leading provider of prepaid card

Notes to Unaudited Consolidated Financial Statements (continued)

solutions that utilize the Visa, MasterCard, EFT and ATM networks for Fortune 500 companies as well as domestic and international financial institutions. The Company believes the acquisition of TSYS Prepaid enhances TSYS' processing services by adding enhanced functionality and distinct value differentiation for TSYS and its clients. TSYS Prepaid operates as a separate, wholly owned subsidiary of TSYS. Revenues associated with TSYS Prepaid are included in electronic payment processing services and are classified in domestic-based support services for segment reporting purposes.

The Company is in the process of completing its purchase price allocation related to the acquisition. The preliminary purchase price allocation is presented below:

<u>(in thousands)</u>	
Cash and cash equivalents	\$ 2,422
Restricted cash	16,672
Intangible assets	10,900
Goodwill	39,619
Other assets	4,817
Total assets acquired	<u>74,430</u>
Other liabilities	<u>20,915</u>
Total liabilities assumed	<u>20,915</u>
Net assets acquired	<u>\$ 53,515</u>

Pro forma

Presented below are the pro forma consolidated results of operations for the three and six months ended June 30, 2005 and 2004, respectively, as though the acquisitions of Vital and TSYS Prepaid had occurred on January 1, 2004. This pro forma information is based on the historical financial statements of Vital and TSYS Prepaid. Pro forma results do not include any actual or anticipated cost savings or expenses of the planned integration of TSYS, Vital and TSYS Prepaid, and are not necessarily indicative of the results which would have occurred if the business combinations had been in effect on the dates indicated, or which may result in the future.

<u>(in thousands, except per share data)</u>	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Revenues	\$ 410,243	364,114	803,817	721,134
Net income	50,643	35,944	98,775	71,383
Basic earnings per share	0.26	0.18	0.50	0.36
Diluted earnings per share	0.26	0.18	0.50	0.36

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

Financial Overview

Total System Services, Inc.'s (TSYS' or the Company's) revenues are derived from providing electronic payment processing and related services to financial and nonfinancial institutions, generally under long-term processing contracts. TSYS' services are provided primarily through the Company's cardholder systems, TS2 and TS1, to financial institutions and other organizations throughout the United States, Mexico, Canada, Honduras, Puerto Rico and Europe. The Company currently offers merchant services to financial institutions and other organizations through its majority owned subsidiary, GP Network Corporation (GP Net), and its wholly owned subsidiary, Vital Processing Services, L.L.C. (Vital).

Due to the somewhat seasonal nature of the credit card industry, 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 declines 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 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. 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 position, results of operations and cash flows in the future.

A significant amount of the Company's revenues is derived from long-term contracts with large clients, including certain major customers. 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 and increasing pressure on the Company's operating profit margins.

The Company provides services to its clients including processing consumer, retail, commercial, government services, stored value and debit cards. Consumer cards include Visa and MasterCard credit cards as well as American Express cards. Retail cards include private label and gift cards. Commercial cards include purchasing cards, corporate cards and fleet cards for employees. Government services accounts on file consist mainly of student loan processing accounts. Stored value accounts include prepaid cards, including loyalty incentive cards and flexible spending cards, and stored value cards. Debit cards consist mainly of on-line (PIN-based) and off-line (signature-based) accounts. The tables on page 27 summarize TSYS' accounts on file (AOF) information as of June 30, 2005 and 2004.

Financial Overview (continued)

A summary of the financial highlights occurring during 2005, as compared to 2004, is provided below:

	Three months ended			Six months ended		
	June 30,		Percent	June 30,		Percent
	2005	2004	Change	2005	2004	Change
Revenues Before						
Reimbursables	\$ 331,068	233,690	41.7%	\$ 611,444	458,294	33.4%
Total Revenues	410,243	289,622	41.6	760,227	574,858	32.2
Operating Income	76,346	47,272	61.5	142,652	91,414	56.0
Net Income	50,643	35,886	41.1	96,766	68,447	41.4
Basic EPS	0.26	0.18	41.0	0.49	0.35	41.2
Diluted EPS	0.26	0.18	41.0	0.49	0.35	41.3

Significant highlights for 2005 include:

- TSYS has ended its negotiations with Citibank related to continuing its processing services for the Sears, Roebuck and Co. card portfolio. TSYS received official notification that Citibank plans to migrate all of the Sears consumer MasterCard and private-label accounts from TSYS in a deconversion that is expected to occur in the second quarter of 2006. TSYS expects to continue supporting commercial-card accounts for Citibank, as well as Citibank's California Commerce consumer accounts, according to the terms of the existing agreements for those portfolios.
- TSYS reached an agreement in principle with Capital One Financial Corporation to provide processing services for its North American portfolio of consumer and small business credit card accounts. TSYS continues its exclusive negotiations with Capital One.
- TSYS signed Fifth Third Bancorp and successfully converted its Visa and MasterCard consumer credit portfolio to TS2.
- TSYS approved a quarterly cash dividend of \$0.06 per share, an increase of 50 percent from the previous dividend rate. TSYS has increased its dividend payment for 6 consecutive years.
- TSYS renewed its agreement with Navy Federal Credit Union, the world's largest credit union, to continue processing more than 1 million credit card accounts for an additional five years.
- The Company acquired the remaining 50% interest from Visa U.S.A. (Visa) of Vital Processing Services, L.L.C. (Vital) for \$95.8 million.
- TSYS signed a seven-year contract with ABN AMRO Bank, Barneveld, Netherlands, which represents the first processing agreement with a card issuer based in continental Europe. Additionally, TSYS will provide customer care services on behalf of ABN AMRO by managing a customer contact center in The Netherlands. The center will support full end-to-end customer service, including general customer service queries, application processing, chargebacks and dispute handling, fraud and collections.
- TSYS and Bank of America agreed to add five years to the current agreement to provide exclusive processing services through 2014. The expanded relationship covers all consumer and commercial credit Visa and MasterCard accounts issued by Bank of America, as well as

Financial Overview (continued)

- the recently acquired portfolio of FleetBoston Financial Corp. (FleetBoston), which was converted to TSYS in mid-March.
- MBNA, based in Wilmington, Delaware, extended its existing seven-year relationship with TSYS for commercial card processing services by an additional three years.
 - TSYS successfully implemented two retail gift card programs in Europe — one for HMV, the largest retailer of music, DVD and games in the UK and another for Hunkemöller, a leading specialist retailer in The Netherlands, with outlets in Germany, Denmark, France, Luxembourg and Belgium.
 - TSYS Prepaid announced it was sponsoring the creation of an industry-wide prepaid card trade association. The trade association will help advance the rapidly evolving prepaid market, focusing primarily on branded cards using open networks such as Visa and MasterCard, as well as EFT and ATM networks.
 - TSYS announced that Answers, etc. will use TSYS Prepaid's platform to power the Zoomcard Prepaid MasterCard. The Zoomcard, issued by KeyBank, is accepted at more than 900,000 ATMs and more than 24 million merchant locations worldwide.

Industry Developments

Consolidation among financial institutions, particularly in the area of credit card operations continued to be a major industry risk. During 2005, the following consolidations and industry events occurred:

- Bank of America Corporation announced a definitive agreement to acquire MBNA Corporation. With the acquisition, Bank of America will become one of the largest card issuers in the United States.
- Washington Mutual Inc., the nation's largest savings and loan, announced it was buying Provident Financial Corp.
- Multiple data breaches, including credit card data security breaches, were announced that allowed unauthorized access to consumer profiles. A bill under consideration in the Senate would require U.S. businesses to make data-security breaches public, with those failing to do so facing possible criminal prosecution.

Financial Review

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

Critical Accounting Policies and Estimates

The Company's financial position, results of operations and cash flows are impacted by the accounting policies the Company has adopted. In order to gain 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

Critical Accounting Policies and Estimates (continued)

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.

For a detailed discussion regarding the Company's critical accounting policies and estimates, see "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. There have been no material changes to the Company's critical accounting policies, estimates and assumptions or the judgments affecting the application of those estimates and assumptions in 2005.

GOODWILL: The Company's annual impairment analyses of its unamortized goodwill balance as of May 31, 2005 did not result in any impairment.

Related Party Transactions

The Company provides electronic payment processing and other services to its parent company, Synovus Financial Corp. (Synovus) and its affiliates, and to the Company's joint venture, Total System Services de México, S.A. de C.V. (TSYS de México). 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.

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 and includes covenants requiring the Company to maintain certain minimum financial ratios. At June 30, 2005, TSYS did not have an outstanding balance on the line of credit.

Off-Balance Sheet Arrangements

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

Results of Operations

The following table sets forth certain income statement captions as a percentage of total revenues and the percentage increases or decreases in those items for the three months ended June 30, 2005 and 2004:

	Percentage of Total Revenues		Percentage Change in Dollar Amounts
	<u>2005</u>	<u>2004</u>	<u>2005 vs. 2004</u>
Revenues:			
Electronic payment processing services	52.9 %	63.9 %	17.3 %
Merchant services	16.8	2.4	899.0
Other services	11.0	14.4	8.4
Revenues before reimbursable items	80.7	80.7	41.7
Reimbursable items	19.3	19.3	41.6
Total revenues	100.0	100.0	41.6
Expenses:			
Salaries and other personnel expense	28.6	28.4	42.6
Net occupancy and equipment expense	16.7	23.0	3.0
Other operating expenses	16.8	13.0	83.0
Expenses before reimbursable items	62.1	64.4	36.6
Reimbursable items	19.3	19.3	41.6
Total expenses	81.4	83.7	37.8
Operating income	18.6	16.3	61.5
Nonoperating income	0.1	0.2	2.3
Income before income taxes, minority interest and equity in income of joint ventures	18.7	16.5	60.9
Income taxes	6.5	6.4	44.7
Minority interests in consolidated subsidiaries' net income	(0.0)	(0.0)	(36.3)
Equity in income of joint ventures	0.1	2.3	(91.2)
Net income	12.3 %	<u>12.4</u> %	41.1 %

The following table sets forth certain income statement captions as a percentage of total revenues and the percentage increases or decreases in those items for the six months ended June 30, 2005 and 2004:

Results of Operations (continued)

	Percentage of Total Revenues		Percentage Change in Dollar Amounts
	<u>2005</u>	<u>2004</u>	<u>2005 vs. 2004</u>
Revenues:			
Electronic payment processing services	55.5 %	63.0 %	16.4 %
Merchant services	12.6	2.3	623.5
Other services	12.3	14.4	13.5
Revenues before reimbursable items	80.4	79.7	33.4
Reimbursable items	19.6	20.3	27.6
Total revenues	100.0	100.0	32.2
Expenses:			
Salaries and other personnel expense	28.2	29.6	26.2
Net occupancy and equipment expense	17.6	21.6	7.5
Other operating expenses	15.8	12.6	66.3
Expenses before reimbursable items	61.6	63.8	27.8
Reimbursable items	19.6	20.3	27.6
Total expenses	81.2	84.1	27.7
Operating income	18.8	15.9	56.0
Nonoperating income	0.1	0.0	717.1
Income before income taxes, minority interest and equity in income of joint ventures	18.9	15.9	57.2
Income taxes	6.8	6.1	45.9
Minority interests in consolidated subsidiaries' net income	(0.0)	(0.0)	(29.8)
Equity in income of joint ventures	0.6	2.1	(64.6)
Net income	12.7 %	11.9 %	41.4 %

Revenues

Total revenues increased \$120.6 million and \$185.4 million, or 41.6% and 32.2%, respectively, during the three and six months ended June 30, 2005, compared to the same periods in 2004. The increase in revenues for the three months and six months ended June, 2005 includes an increase of \$0.9 million and \$2.0 million related to the effects of currency translation of its foreign-based subsidiaries and branches. Excluding reimbursable items, revenues increased \$97.4 million and \$153.2 million, or 41.7% and 33.4%, respectively, during the three and six months ended June 30, 2005, compared to the same periods in 2004.

International Revenues

TSYS provides services to its clients worldwide and plans to continue to expand its service offerings internationally in the future. Total revenues from clients domiciled outside the United States for the three and six months ended June, 2005 and 2004, respectively, are summarized below:

Results of Operations (continued)

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2005	2004	% Change	2005	2004	% Change
Europe	\$ 31.3	24.2	29.4 %	\$ 64.4	45.5	41.5 %
Canada	22.4	21.3	5.5	43.5	41.0	6.1
Japan	3.9	3.4	15.0	7.6	6.9	11.4
Mexico	1.7	2.9	(41.0)	3.4	5.8	(42.1)
Other	0.8	0.6	12.2	1.2	1.4	(6.0)
Totals	\$ 60.1	52.4	14.6 %	\$ 120.1	100.6	19.5 %

Total revenues from clients based in Europe were \$31.3 million and \$64.4 million for the three and six months ended June 30, 2005, a 29.4% and 41.5% increase compared to the \$24.2 million and \$45.5 million for the same periods last year. The growth in revenues in 2005 from clients based in Europe was a result of the growth of existing clients, the conversion of new accounts, the effect of currency translation and the increased use of value added products and services by clients in Europe.

Total revenues from clients based in Mexico were \$1.7 million and \$3.4 million for the three and six months ended June 30, 2005, a 41.0% and 42.1% decrease compared to the \$2.9 million and \$5.8 million for the same periods last year. During 2003, a Mexican client notified the Company of its intentions to utilize its internal global platform and to deconvert in mid-2004. As a result, revenues for 2005 from Mexico have decreased significantly when compared to revenues from Mexico for 2004.

Value Added Products and Services

The Company's revenues are impacted by the use of optional value added products and services of TSYS' processing systems. Value added products and services are optional features to which each client can choose to subscribe 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. Value added products and services are included mainly in electronic payment processing services revenue.

For the three months ended June 30, 2005 and 2004, value added products and services represented 12.1% and 12.9%, respectively, of total revenues. For the six months ended June 30, 2005 and 2004, value added products and services represented 12.6% and 13.3%, respectively, of total revenues. Revenues from these products and services, which include some reimbursable items paid to third-party vendors, increased 33.1%, or \$12.3 million and 25.2% and \$19.2 million, for the three and six months ended June 30, 2005 compared to the same periods last year.

Major Customer

A significant amount of the Company's revenues are derived from long-term contracts with large clients, including certain major customers. For the three months ended June 30, 2005, the Company had one major customer which accounted for approximately 23.8%, or \$97.8 million, of total revenues. For the three months ended June 30, 2004, TSYS had one major customer that accounted for 19.0%, or \$54.9 million, of total revenues. For the six months ended June 30, 2005, the Company had one major

Results of Operations (continued)

customer which accounted for approximately 22.4%, or \$170.0 million, of total revenues. For the six months ended June 30, 2004, TSYS had one major customer that accounted for 18.6%, or \$107.2 million, of total revenues.

As previously mentioned, on January 25, 2005, the Company announced that it had extended its agreement with its major customer for an additional five years through 2014.

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, 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, government services 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 \$32.1 million, or 17.3% and \$59.4 million, or 16.4%, for the three and six months ended June 30, 2005, respectively, compared to the same periods in 2004.

Accounts on File (AOF) Data (in millions):

AOF

	2005	2004	% Change
At June 30,	388.6	287.0	35.4%
QTD Average	380.7	285.0	33.6%
YTD Average	371.8	281.6	32.0%

AOF by Portfolio Type

	2005		2004		% Change
	AOF	%	AOF	%	
At June 30,					
Consumer	230.0	59.2	152.0	53.0	51.3
Retail	92.2	23.7	86.5	30.1	6.5
Commercial	28.8	7.4	22.9	8.0	26.1
Government services	17.1	4.4	14.6	5.1	16.9
Stored value	13.2	3.4	4.5	1.5	196.2
Debit	7.3	1.9	6.5	2.3	11.5
Total	388.6	100.0	287.0	100.0	35.4

AOF by Geographic Area

	2005		2004		% Change
	AOF	%	AOF	%	
At June 30,					
Domestic	335.5	86.3	240.1	83.7	39.7
International	53.1	13.7	46.9	16.3	13.2
Total	388.6	100.0	287.0	100.0	35.4

Note: The accounts on file distinction between domestic and international is based on the geographic domicile of processing clients.

Results of Operations (continued)

Activity in AOF

	June 2004 to June 2005	June 2003 to June 2004
Beginning balance	287.0	262.5
Internal growth of existing clients	38.5	29.6
New clients	69.3	6.6
Purges/Sales	(5.0)	(7.4)
Deconversions	(1.2)	(4.3)
Ending balance	388.6	287.0

On March 3, 2003, the Company announced that Bank One had selected TSYS to upgrade its credit card processing. Under the long-term software licensing and services agreement, TSYS is to provide electronic payment processing services to Bank One's credit card accounts for at least two years starting in 2004 (excluding statement and card production services). Following the provision of processing services, TSYS is to license a modified version of its TS2 consumer and commercial software to Bank One through a perpetual license with a six-year payment term. This agreement has been superseded by the agreement with JP Morgan Chase & Co. (Chase) as described below. The Company used the percentage-of-completion accounting method for its agreement with Bank One and recognized revenues in proportion to costs incurred. TSYS' revenues from Bank One were less than 10% of total revenues for the three and six months ended June 30, 2005.

On July 1, 2004, Bank One and Chase merged under the name Chase. On October 13, 2004, TSYS finalized a definitive agreement with Chase to service the combined card portfolios of Chase Card Services and to upgrade its card-processing technology. The agreement extends a relationship that started with TSYS and the former Bank One Corp. in March 2003. Pursuant to the revised agreement, the first phase of the project was executed successfully and Bank One's remaining accounts were converted to a modified version of TS2 processing platform during the fourth quarter of 2004, according to the project's original schedule. TSYS converted the consumer accounts of Chase to the modified version of TS2 in July 2005. TSYS expects to maintain the card-processing functions of Chase Card Services for at least two years. Chase Card Services then has the option to either extend the processing agreement for up to five additional two-year periods or migrate the portfolio in-house, under a perpetual license of a modified version of TS2 with a six-year payment term.

As a result of the new agreement with Chase, TSYS discontinued its use of the percentage-of-completion accounting method for the original agreement with Bank One. The revised agreement is being accounted for in accordance with Financial Accounting Standards Board's (FASB's) Emerging Issues Task Force No. 00-21 (EITF No. 00-21), "Accounting for Revenue Arrangements with Multiple Deliverables," and other applicable guidance.

TSYS expects that the 2005 earnings per share (EPS) impact of the Chase agreement will be \$0.05-\$0.06 per share and the 2006 EPS impact will be \$0.06-\$0.07 per share. Beyond 2006, the annual EPS impact of the agreement will depend upon Chase Card Services' decision to continue the processing agreement or to exercise its option to license the software.

Results of Operations (continued)

On March 31, 2004, Bank of America acquired FleetBoston. In connection with the extended agreement with Bank of America, TSYS converted the FleetBoston card portfolio to TSYS' processing system in March 2005.

In July 2003, Sears and Citigroup announced an agreement for the sale by Sears to Citigroup of the Sears credit card and financial services businesses. For the three and six months ended June 30, 2005, TSYS' revenues from the agreement with Sears represented less than 10% of TSYS' consolidated revenues. The TSYS/Sears agreement granted to Sears the one-time right to market test TSYS' pricing and functionality after May 1, 2004, which right was exercised by Citigroup. In June 2005, TSYS announced that Citigroup will move the Sears consumer MasterCard and private-label accounts from TSYS in a deconversion that is expected to occur in the second quarter of 2006. TSYS expects to continue supporting commercial card accounts for Citibank, as well as Citibank's California Commerce consumer accounts, according to the terms of the existing agreements for those portfolios. The impact of the expected deconversion of the Sears portfolio on the financial position, results of operation and cash flows of TSYS cannot be determined at this time.

On August 2, 2004, TSYS completed the acquisition of Clarity Payment Solutions, Inc. (Clarity) for \$53.0 million in cash and had direct acquisition costs in the amount of \$515,000. Clarity was renamed TSYS Prepaid. Refer to Note 9 in the notes to unaudited consolidated financial statements for more information on the acquisition of TSYS Prepaid. For the three and six months ended June 30, 2005, TSYS' electronic payment processing services revenues include \$6.4 million and \$12.9 million, respectively, of TSYS Prepaid's revenues.

Merchant Services

Merchant services revenues are derived from electronic transaction processing services primarily to large financial institutions and other merchant acquirers. Revenues from merchant services include processing 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. Merchant services' 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.

Revenues from merchant services consist of revenues generated by TSYS' wholly owned subsidiary Vital and majority owned subsidiary GP Net. Merchant services revenue for the three and six months ended June 30, 2005 was \$68.7 million and \$95.8 million, respectively, compared to \$6.9 million and \$13.2 million for the same periods last year. The increase is completely attributable to the consolidation of Vital's results effective March 1, 2005. Prior to the acquisition of Vital, TSYS' revenues included fees TSYS charged to Vital for back-end processing support.

On March 1, 2005, TSYS acquired the remaining 50% of Vital from Visa for \$95.8 million in cash, including \$782,000 of direct acquisition costs. Vital is now a separate, wholly owned subsidiary of TSYS. As a result of the acquisition of control of Vital, TSYS changed from the equity method of accounting for the investment in Vital and began consolidating Vital's balance sheet and results of operations. Refer to Note 9 in the notes to unaudited consolidated financial statements for more information on the acquisition of Vital.

Results of Operations (continued)

Other Services

Revenues from other services consist primarily of revenues generated by TSYS' wholly owned subsidiaries not included in electronic payment processing services or merchant services, as well as TSYS' business process management services. Revenues from other services increased \$3.5 million, or 8.4%, for the three months ended June 30, 2005, compared to the same period in 2004. Revenues from other services increased \$11.2 million, or 13.5%, for the six months ended June 30, 2005, compared to the same period in 2004. Other services revenue increased primarily due to increased loyalty services from ESC and from new customers added since last year for business process management services.

Reimbursable Items

As a result of the FASB's Emerging Issues Task Force No. 01-14 (EITF No. 01-14), "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," the Company has included reimbursements received for out-of-pocket expenses as revenues and expenses. Reimbursable items increased \$23.2 million, or 41.6%, for the three months ended June 30, 2005, as compared to the same period last year. Reimbursable items increased \$32.2 million, or 27.6 %, for the six months ended June 30, 2005, as compared to the same period last year. Of the \$23.2 million and \$32.2 million increase for the three and six months ended June 30, 2005, \$11.7 million and \$15.7 million, respectively is attributable to Vital and TSYS Prepaid. The majority of reimbursable items relates to the Company's domestic-based clients and is primarily costs associated with postage.

A summary of the reimbursable revenues for the three and six months ended June 30, 2005, as compared to 2004, is provided below:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2005	2004	Percent Change	2005	2004	Percent Change
Postage	\$ 41,581	37,621	10.5 %	\$ 82,637	80,230	3.0%
Card association access fees	18,440	4,468	312.7	28,295	8,323	240.0
Other	19,154	13,843	38.4	37,851	28,011	35.1
Total	\$ 79,175	55,932	41.6 %	\$148,783	116,564	27.6%

Operating Expenses

Total expenses increased 37.8% and 27.7% for the three and six months ended June 30, 2005, respectively, compared to the same periods in 2004. The increase in expense includes an increase of \$1.0 million and \$2.1 million for the three and six months ended June 30, 2005 and 2004, respectively, related to the effects of currency translation of its foreign-based subsidiaries and branches. Excluding reimbursable items, total expenses increased 36.6% and 27.8% for the three and six months ended June 30, 2005, respectively, compared to the same periods in 2004. The increase in operating expenses is attributable to changes in each of the expense categories as described below.

Salaries and Other Personnel Expense

Summarized below are the major components of salaries and other personnel expenses for the three and six months ended June 30, 2005:

Results of Operations (continued)

(in thousands)	Three months ended			Six months ended		
	June 30,			June 30,		
	2005	2004	% Change	2005	2004	% Change
Salaries	\$ 86,644	67,919	27.6 %	\$ 164,723	136,838	20.4 %
Employee benefits	27,979	12,073	131.7	48,802	28,962	68.5
Nonemployee wages	4,840	3,647	32.7	8,354	7,764	7.6
Other	2,556	1,682	52.0	3,279	2,659	23.3
Less capitalized expenses	(4,818)	(3,097)	55.6	(10,440)	(6,137)	70.6
Totals	\$ 117,201	82,224	42.6 %	\$ 214,718	170,086	26.2 %

Salaries and other personnel expenses increased \$35.0 million, or 42.6%, for the three months ended June 30, 2005, compared to the same period in 2004. For the six months ended June 30, 2005, salaries and other personnel expenses increased \$44.6 million, or 26.2%, compared to the same period in 2004. Of the \$35.0 million and \$44.6 million increase for the three and six months for 2005, respectively, \$19.3 million and \$27.4 million are the result of employee related expenses of Vital and TSYS Prepaid. In addition, the change in employment expenses is associated with the normal salary increases and related benefits, as well as higher levels of employment costs capitalized as software development and contract acquisition costs. The growth in employment expenses included an increase in the accrual for performance-based incentive benefits.

The Company's salaries and personnel expense is greatly influenced by the number of employees. Below is a summary of the Company's employee data:

<i>Employee Data:</i>			
(Full-time Equivalents)	2005	2004	% Change
At June 30,	6,475	5,519	17.3
QTD Average	6,432	5,504	16.9
YTD Average	6,111	5,564	9.8

Through the first six months of 2005, TSYS added 783 employees associated with the acquisition of Vital. At June 30, 2005, TSYS had 89 employees associated with the TSYS Prepaid acquisition.

Net Occupancy and Equipment Expense

Summarized below are the major components of net occupancy and equipment expenses:

Results of Operations (continued)

(in thousands)	Three months ended			Six months ended		
	June 30,			June 30,		
	2005	2004	% Change	2005	2004	% Change
Depreciation and amortization	\$ 26,267	19,984	31.4 %	\$ 49,768	39,426	26.2%
Equipment and software rentals	21,144	24,330	(13.1)	45,732	46,775	(2.2)
Repairs and maintenance	13,657	6,952	96.5	21,803	18,362	18.7
Impairment of developed software	-	10,059	(100.0)	3,137	10,059	(68.8)
Other	7,428	5,168	43.9	13,449	9,920	35.6
Totals	\$ 68,496	66,493	3.0 %	\$ 133,889	124,542	7.5%

Net occupancy and equipment expense increased \$2.0 million, or 3.0%, and \$9.3 million, or 7.5%, for the three and six months ended June 30, 2005 over the same periods in 2004, respectively. Of the \$2.0 million and \$9.3 million increase for the three and six months ended June 30, 2005, respectively, \$5.5 million and \$7.2 million are the result of occupancy and equipment related expenses of Vital and TSYS Prepaid.

In March 2005, TSYS recognized an impairment loss on developed software of \$3.1 million. Also, the results for 2005 include expenses associated with the new data centre in Europe, which became operational in August 2004.

The Company was developing its Integrated Payments (IP) Platform supporting the on-line and off-line debit and stored value markets, which would have given clients access to all national and regional networks, EBT programs, ATM driving and switching services for online debit processing. Through 2004, the Company invested a total of \$6.3 million since the project began.

Development relating specifically to the IP on-line debit platform primarily consisted of a third-party software solution. During the first quarter of 2005, the Company evaluated its debit solution and decided to modify its approach in the debit processing market. With the acquisition of Vital and debit alternatives now available, TSYS determined that it would no longer market this third-party software product as its on-line debit solution. TSYS will continue to support this product for existing clients and will enhance and develop a new solution. As a result, TSYS recognized an impairment charge in net occupancy and equipment expense of approximately \$3.1 million related to this asset. The impairment charge is reflected in the domestic-based support services segment. As a result of the impairment charge, TSYS now has \$3.2 million capitalized as of June 30, 2005 related to IP on-line debit platform.

The Company has decided to construct a 102,000 square foot data centre in the Western part of the United States as part of its disaster recovery plan. The Company expects to break ground on a \$35-40 million facility located in Chandler, Arizona in September 2005. Construction is expected to take approximately one year. Management has decided to bring the disaster recovery function in-house instead of relying on third-party providers. The savings from bringing this service in-house will offset some of the expenses associated with the new facility.

Results of Operations (continued)

Other Operating Expenses

Summarized below are the major components of other operating expenses for the three and six months ended June 30, 2005 and 2004:

(in thousands)	Three months ended				Six months ended,			
	June 30,				June 30,			
	2005	2004	% Change		2005	2004	% Change	
Professional advisory services	\$ 11,876	2,065	475.2	%	\$ 16,384	3,708	341.9	%
Third-party data processing services	11,653	1,317	784.0		16,450	2,616	529.0	
Court costs associated with debt collection services	8,295	8,225	0.8		16,276	18,032	(9.7)	
Terminal deployment costs	7,413	-	nm		9,711	-	nm	
Supplies and stationery	7,389	6,379	15.8		14,070	13,082	7.6	
Travel and business development	6,069	2,422	150.6		7,387	4,468	65.3	
Amortization of conversion costs	3,720	2,797	33.0		7,174	5,515	30.1	
Management fees	2,026	2,231	9.2		4,097	4,481	(8.6)	
Amortization of acquisition intangibles	1,931	467	314.4		3,222	933	245.6	
Transaction processing provisions	1,486	3,940	(62.3)		4,595	4,865	(5.5)	
Bad debt expense and billing	(490)	(669)	(26.6)		2,688	(1,373)	(295.8)	
Other	15,863	8,527	86.2		28,388	15,960	77.9	
Less capitalized expenses	(8,206)	-	nm		(10,257)	(35)	nm	
Totals	\$ 69,025	37,701	83.0	%	\$ 120,185	72,252	66.3	%

nm = not meaningful

Other operating expenses for the three and six months ended June 30, 2005 increased \$31.3 million and \$47.9 million, or 83.0% and 66.3%, respectively, as compared to the same periods in 2004. Of the \$31.3 million and \$47.9 million increases, \$32.2 million and \$47.0 million, respectively, is the result of other operating related expenses of Vital and TSYS Prepaid.

Other operating expenses include, among other things, amortization of conversion costs, costs associated with delivering merchant services, professional advisory fees and court costs associated with its debt collection business. Other operating expenses also include charges for processing errors, contractual commitments and bad debt expense. As described in the Critical Accounting Policies section in the 2004 Form 10-K, 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.

Operating Income

Operating income increased 61.5% and 56.0% for the three and six months ended June 30, 2005, respectively, over the same periods in 2004. The Company's operating profit margin for the three and six months ended June 30, 2005 was 18.6% and 18.8%, respectively, compared to 16.3% and 15.9% for the same periods last year. The margins for 2005 increased when compared to the same period in 2004

Results of Operations (continued)

mainly as a result of the consolidated results of Vital, increased revenues and benefits associated with increased operating leverage.

The Company's operating profit is impacted by the acquisition of Vital. Prior to acquiring control, TSYS accounted for its investment in Vital using the equity method of accounting. Only TSYS' share of Vital's earnings was included in TSYS' net income. After acquiring control of Vital, TSYS began consolidating Vital's results of operations. By consolidating the results of Vital, the impact will increase operating profit as compared to periods that TSYS used the equity method of accounting.

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 June 30, 2005 was 23.1%, compared to 20.2% for the three months ended June 30, 2004; for the six months ended June 30, 2005, the Company's operating margin excluding reimbursables was 23.3%, compared to 19.9% for the same period last year.

Below is the reconciliation between reported operating margins and adjusted operating margins excluding reimbursable items for the three and six months ended June 30, 2005 and 2004, respectively:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Operating income (a)	\$ 76,346	47,272	142,652	91,414
Total revenues (b)	\$ 410,243	289,622	760,227	574,858
Operating margin (as reported) (a)/(b)	18.6%	16.3%	18.8%	15.9%
Revenue before reimbursable items (c)	\$ 331,068	233,690	611,444	458,294
Adjusted operating margin (a)/(c)	23.1%	20.2 %	23.3%	19.9%

Nonoperating Income (Expense)

Interest income for the three months ended June 30, 2005 was \$1.1 million, an increase of \$541,000, compared to \$537,000 million for the same period in 2004. Interest income for the six months ended June 30, 2005 was \$2.3 million, an increase of approximately \$1.3 million, compared to \$1.0 million for the same period in 2004. The increase in interest income is primarily attributable to the fluctuations in cash available for investment and changes in short-term interest rates.

Interest expense for the three months ended June 30, 2005 was \$105,000, an increase of \$66,000, compared to \$39,000 for the same period in 2004. Interest expense for the six months ended June 30, 2005 was \$175,000, a decrease of \$607,000, compared to \$782,000 for the same period in 2004. The decrease is the result of the interest expense in 2004 related to the Company's software obligations. On March 31, 2004, TSYS paid the remaining obligations for mainframe software licenses.

Results of Operations (continued)

The Company records foreign currency translation adjustments on foreign-denominated balance sheet accounts. The Company maintains several cash accounts denominated in foreign currencies, primarily in Euros and British Pounds Sterling (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 loss of \$494,000 and \$827,000 for the three and six months ended June 30, 2005, respectively, relates to the translation of cash accounts. The balance of the Company's foreign-denominated cash accounts subject to risk of translation gains or losses at June 30, 2005 was approximately \$5.3 million, the majority of which is denominated in Euros.

Income Taxes

TSYS' effective income tax rate for the three months ended June 30, 2005 was 34.8%, compared to 34.2% for the same period in 2004. TSYS' effective income tax rate for the six months ended June 30, 2005 was 35.0%, compared to 34.2% for the same period in 2004. The increase in the effective tax rate for the three and six months ended June 30, 2005 is a result of increased foreign earnings. The calculation of the effective tax rate is income taxes divided by TSYS' pretax income adjusted for minority interests in consolidated subsidiaries' net income and equity earnings of the Vital joint venture. The Company expects its effective income tax rate for 2005 to be approximately 34%-35%.

Equity in Income of Joint Ventures

TSYS' share of income from its equity in joint ventures was \$590,000 and \$6.7 million for the three months ended June 30, 2005 and 2004, respectively. TSYS' share of income from its equity in joint ventures was \$4.3 million and \$12.3 million for the six months ended June 30, 2005 and 2004, respectively. The decreases for the quarter and first six months are primarily attributable to the purchase of the remaining 50% of Vital on March 1, 2005 and the inclusion of Vital's operating results in TSYS' statement of income. Refer to Note 9 in the notes to unaudited consolidated financial statement for more information on the acquisition of Vital.

Vital Processing Services, L.L.C.

As a result of the acquisition of control of Vital, TSYS changed from the equity method of accounting for the investment in Vital and began consolidating Vital's balance sheet and results of operations in the statements of income beginning March 1, 2005. For the two months in 2005 prior to the acquisition, the Company's equity in income of joint ventures related to Vital was \$3.2 million.

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 and six months ended June 30, 2005, the Company's equity in income of joint ventures related to TSYS de México was \$590,000 and \$1.1 million, respectively, representing an 84.9% and 58.3% increase, or \$272,000 and \$405,000, compared to \$318,000 and \$693,000, respectively, for the same periods in the prior year.

Results of Operations (continued)

TSYS pays TSYS de México a processing support fee for certain client relationship and network services that TSYS de México has assumed from TSYS. This processing support fee decreased as a result of the deconversion of a TSYS client in Mexico. Below is a summary of the fee for the three and six months ended June 30, 2005 and 2004, respectively.

Processing support fee	2005	2004
For the three months ended June 30,	\$35,600	46,000
For the six months ended June 30,	69,000	108,000

Net Income

Net income for the three months ended June 30, 2005 increased 41.1% to \$50.6 million, or basic and diluted earnings per share of \$0.26, compared to \$35.9 million, or basic and diluted earnings per share of \$0.18, for the same period in 2004. Net income for the six months ended June 30, 2005 increased 41.4% to \$96.8 million, or basic and diluted earnings per share of \$0.49, compared to \$68.4 million, or basic and diluted earnings per share of \$0.35, for the same period in 2004.

Net Profit Margin

The Company's net profit margin for the three months ended June 30, 2005 was 12.3%, compared to 12.4% for the same period last year. The Company's net profit margin for the six months ended June 30, 2005 was 12.7%, compared to 11.9% for the same period last year.

The Company's net profit margin is also impacted by the acquisition of Vital. Prior to acquiring control, TSYS accounted for its investment in Vital using the equity method of accounting. Only TSYS' share of Vital's earnings was included in TSYS' net income. After acquiring control of Vital, TSYS began consolidating Vital's results of operations on March 1, 2005. By consolidating the results of Vital, the impact will be a lower net profit margin as compared to periods that used the equity method of accounting.

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 profit 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 three months ended June 30, 2005 was 15.3%, compared to 15.4% for the three months ended June 30, 2004. Excluding reimbursable items, the Company's net profit margin for the six months ended June 30, 2005 was 15.8%, compared to 14.9% for the six months ended June 30, 2004.

Below is the reconciliation between reported net profit margin and adjusted net profit margin excluding reimbursable items for the three and six months ended June 30, 2005 and 2004, respectively:

Results of Operations (continued)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net income (a)	\$ 50,643	35,886	96,766	68,447
Total revenues (b)	\$ 410,243	289,622	760,227	574,858
Net profit margin (as reported) (a)/(b)	12.3%	12.4%	12.7%	11.9%
Revenue before reimbursable items (c)	\$ 331,068	233,690	611,444	458,294
Adjusted net profit margin (a)/(c)	15.3%	15.4%	15.8%	14.9%

Projected Outlook for 2005

On July 19, 2005, TSYS announced it was raising its projected outlook for 2005. TSYS now expects its 2005 net income growth to be in the range of 25%-28%, based on the following assumptions: total revenues increasing 31%-33% in 2005; revenues before reimbursable items increasing 33%-35%; Vital adding \$225-\$235 million in annual revenue; and accounts on file at the end of 2005 increasing to approximately 430-435 million.

On April 14, 2005, the Securities and Exchange Commission (SEC) approved a rule that delays the effective date of SFAS No. 123R for public companies that do not file as small business issuers until the first annual or interim reporting period of the first fiscal year that begins on or after June 15, 2005. The Company plans on adopting SFAS No. 123R on January 1, 2006. The Company expects that the impact of adopting SFAS No. 123R for expensing existing stock options will have a negative impact upon its results of operations and statement of financial position. The Company expects that the impact of expensing existing stock option grants, as well as the impact of any anticipated stock option grants to be approximately \$0.02-\$0.03 per share in 2006. The Company does not expect the impact of adopting SFAS No. 123R to have a material impact upon its cash flow.

Financial Position, 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. TSYS has occasionally used borrowed funds to supplement financing of capital expenditures.

Cash Flows From Operating Activities

(in thousands)	Six months ended	
	June 30,	
	2005	2004
Net income	\$ 96,766	68,447
Depreciation and amortization	69,522	52,781
Other non cash items and charges, net	13,366	11,868
Working capital items	(141,901)	(20,641)
Net cash provided from operating activities	\$ 37,753	112,455

TSYS' main source of funds is derived from operating activities, specifically net income. During the six months ended June 30, 2005, the Company generated \$37.8 million in cash from operating activities compared to \$112.5 million for the same period last year. The decrease in 2005 in net cash provided from operating activities was the result of the use of cash for working capital items.

Financial Position, Liquidity and Capital Resources (continued)

Working capital items include accounts receivable, prepaid expenses and other assets, accounts payable, accrued salaries and employee benefits and other current liabilities. The change in accounts receivable at June 30, 2005 as compared to December 31, 2004 is the result of timing of collections compared to billings. The change in accounts payable and other liabilities for the same period is the result of the timing of payments for long-term software contracts, funding of performance-based incentives and payments of vendor invoices.

Cash Flows From Investing Activities

(in thousands)	Six months ended	
	June 30,	
	2005	2004
Purchase of property and equipment, net	\$ (20,383)	(39,326)
Additions to licensed computer software from vendors	(10,647)	(14,001)
Additions to internally developed computer software	(10,388)	(3,703)
Cash used in acquisitions, net of cash acquired	(56,983)	-
Dividends from joint ventures	1,659	15,876
Contract acquisition costs	(10,981)	(3,283)
Net cash used in investing activities	\$ (107,723)	(44,437)

The major uses of cash for investing activities have been the addition of property and equipment, primarily computer equipment, the purchase of licensed and internal development of computer software, investments in contract acquisition costs associated with obtaining and servicing new or existing clients, and business acquisitions. The major source of funds from investing activities is the dividend payment from its joint ventures. The Company used \$107.7 million in cash for investing activities for the six months ended June 30, 2005, compared to \$44.4 million for the same period in 2004. The major use of cash for investing activities in 2005 was for the purchase of Vital.

Property and Equipment

Capital expenditures for property and equipment during the three month periods ended June 30, 2005 and 2004 were \$9.7 million and \$20.4 million, respectively. For the six month period ended June 30, 2005, capital expenditures for property and equipment were \$20.4 million compared to \$39.3 million during the same period last year. The majority of the capital expenditure amounts in 2004 relate to computer equipment and the completion of the new European data centre.

As previously discussed on page 32, the Company has decided to construct a 102,000 square foot data centre in Chandler, AZ as part of its disaster recovery plan. The Company expects to break ground on the \$35-40 million facility in September 2005 and should be completed in one year.

Licensed Computer Software from Vendors

Expenditures for licensed computer software from vendors were \$4.7 million and \$6.6 million for the three months ended June 30, 2005 and 2004, respectively. Expenditures for licensed computer software from vendors for the six months ended June 30, 2005 were \$10.6 million, compared to \$14.0 million for the same period in 2004. 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 or MIPS.

Financial Position, Liquidity and Capital Resources (continued)

Internally Developed Computer Software Costs

Additions to capitalized software development costs for the six months ended June 30, 2005 were \$10.4 million, compared to \$3.7 million for the same period in 2004. The following table is a summary of the additions to internally developed computer software costs by project for the six months ended June 30, 2005 and 2004, respectively:

(in millions)	Six months ended June 30,	
	2005	2004
Vital Express	\$ 8.2	-
MSII	1.8	-
Other	0.4	3.7
Total	\$ 10.4	3.7

The increase in the amount capitalized as software development costs in 2005, as compared to 2004, is mainly attributable to Vital's development of Vital Express and MSII. The Company remains committed to developing and enhancing its processing solutions to expand its service offerings. In addition to developing solutions, the Company has expanded its service offerings through strategic acquisitions, such as TSYS Prepaid.

Through its Vital subsidiary, the Company is internally developing two software projects – MSII and Vital Express. MSII is the enhanced version of the current Merchant Accounting System Initiator (MAS) system that was originally developed by TSYS in the mid-1970's. This project had reached technological feasibility prior to TSYS' acquisition of control of Vital and is expected to be introduced in the marketplace in 2006. The Company capitalized approximately \$1.8 million since acquiring Vital, and has a total of \$2.3 million capitalized since the project began.

Vital Express is currently being developed by Vital and is a tool that will provide a single point of entry system which enables acquirers to more easily load and maintain their merchant populations. Vital Express is expected to be introduced in the marketplace in 2006. This project had reached technological feasibility prior to TSYS' acquisition of control of Vital. The Company capitalized approximately \$8.2 million since acquiring Vital, and has a total of \$16.6 million capitalized since the project began.

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 having occurred 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 has invested a total of \$30.4 million since the project began.

Financial Position, Liquidity and Capital Resources (continued)

The Company was developing its Integrated Payments Platform supporting the on-line and off-line debit and stored value markets, which would have given clients access to all national and regional networks, EBT programs, ATM driving and switching services for online debit processing. The Company invested a total of \$6.3 million since the project began. As previously mentioned on page 32, the Company evaluated its debit solution and decided to modify its approach in the debit processing market. In March 2005, TSYS recognized an impairment charge in net occupancy and equipment expense of approximately \$3.1 million related to its on-line debit solution. As of June 30, 2005, the Company has \$3.2 million capitalized related to this asset.

Cash Used in Acquisitions

During the first quarter of 2005, the Company purchased Vital for approximately \$95.8 million, and had direct acquisition costs of \$782,000.

Dividends Received from Joint Ventures

During 2005, the Company received a dividend payment of \$1.7 million from TSYS de México, compared to \$876,000 for the same period last year. In 2004, the Company received a dividend payment of \$15.0 million from its Vital joint venture.

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 \$5.6 million for the three months ended June 30, 2005, bringing the total for 2005 to \$11.0 million, compared to \$3.3 million for the six months ended June 30, 2004. The Company did not have a cash payment for processing rights for the six months ended June 30, 2005 or 2004.

Conversion cost additions were \$11.0 million and \$3.3 million for the six months ended June 30, 2005 and 2004, respectively. The increase in the amount of conversion cost additions for 2005, as compared to 2004, is the result of the discontinued use of the percentage-of-completion accounting method for TSYS' agreement with Bank One.

Cash Flows From Financing Activities

(in thousands)	Six months ended	
	June 30,	
	2005	2004
Proceeds from borrowings of long-term debt	\$ 48,142	-
Principal payments on long-term debt borrowings, capital lease obligations and software obligations	(48,923)	(42,039)
Dividends paid on common stock	(15,757)	(7,873)
Purchase of common stock	-	(1,188)
Other	427	1,192
Net cash used in financing activities	\$ (16,111)	(49,908)

The major use of cash for financing activities has been the principal payments on capital lease and software obligations, the payment of dividends and the purchase of stock under the stock repurchase

Financial Position, Liquidity and Capital Resources (continued)

plan as described below. The main source of cash from financing activities has been the occasional use of borrowed funds. Net cash used in financing activities for the six months ended June 30, 2005 was \$16.1 million mainly as a result of the payments of dividends. Net cash used in financing activities for the six months ended June 30, 2004 was \$49.9 million mainly as a result of the payments related to the software obligations, and to a lesser extent, the purchases of common stock and payments of dividends.

Software Obligations

On March 31, 2004, the Company paid in full the obligations related to licensed mainframe software. The effective interest rates related to the software obligations were well above current market rates.

Line of Credit

TSYS has a \$45.0 million long-term line of credit from a banking affiliate of Synovus. A detailed discussion related to the line of credit is in Note 6 in the notes to the unaudited consolidated financial statements on page 16. During the six months ended June 30, 2005, the Company utilized the automatic draw-down facility for temporary funding and repaid the balances within days of borrowing.

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 were to be purchased from time to time over a two year period and depended on various factors including price, market conditions, acquisitions and the general financial position of TSYS. Repurchased shares will be used for general corporate purposes. Between January 2005 and April 2005, the Company did not purchase any shares. Since the plan was announced, the Company purchased 577,491 shares at an average cost of \$19.07 per share. The plan expired on April 15, 2005.

Dividends

Dividends on common stock of \$7.9 million were paid during the three months ended June 30, 2005, bringing the total for 2005 to \$15.8 million compared to \$7.9 million paid during the six months ended June 30, 2004. On April 21, 2005, the Company announced an increase in its quarterly dividend of 50% from \$0.04 to \$0.06 per share. This dividend amount was paid on July 1, 2005, to shareholders of record at the close of business on June 23, 2005. On April 15, 2004, the Company announced it would double its quarterly dividend from \$0.02 to \$0.04 per share.

Significant Noncash Transactions

During the first quarter of 2005, the Company issued 221,902 shares of common stock with a market value of \$5.1 million to certain key executive officers and non-management members of its board of directors under restricted stock bonus awards for services to be provided by such officers and directors in the future. The market value of the common stock at the date of issuance is included in the shareholders' equity section of the Company's consolidated balance sheet and is amortized as compensation expense over the vesting period of the awards. Common stock issued under restricted stock bonus awards is considered outstanding for purposes of the computation of basic and diluted earnings per share.

Financial Position, Liquidity and Capital Resources (continued)

On July 19, 2005, the Company issued 5,000 shares of common stock with a market value of \$120,000 to a certain key officer under a restricted stock bonus award for services to be provided by such officer in the future. The market value of the common stock is amortized as compensation expense over the vesting period of the award.

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. TSYS continues to analyze potential hedging instruments to safeguard it from significant foreign currency translation risks.

Impact of Inflation

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

Working Capital

TSYS may seek additional external sources of capital in the future. The form of any such financing will vary depending upon prevailing market and other conditions and may include short-term or long-term borrowings from financial institutions or the issuance of additional equity and/or debt securities such as industrial revenue bonds. However, there can be no assurance that funds will be available on terms acceptable to TSYS. Management expects that TSYS will continue to be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future, as evidenced by TSYS' current ratio of 1.7. At June 30, 2005, TSYS had working capital of \$184.0 million compared to \$170.3 million at December 31, 2004.

Legal Proceedings

The Company is subject to lawsuits, claims and other complaints arising out of the ordinary conduct of its business. In the opinion of management, based in part upon the advice of legal counsel, all matters are believed to be adequately covered by insurance, or if not covered, are believed to be without merit or are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably. The Company establishes reserves for expected future litigation exposures that TSYS determines to be both probable and reasonably estimable.

The Company has received notification from the United States Attorneys' Office for the Northern District of California that the United States Department of Justice is investigating whether the Company and/or one of its large credit card processing clients violated the False Claims Act, 31 U.S.C. §§3729-33, in connection with mailings made on behalf of the client from July 1997 through November 2001. The subject matter of the investigation relates to the U.S. Postal Service's Move Update Requirements. In general, the Postal Service's Move Update Requirements are designed to reduce the volume of mail that is returned to sender as undeliverable as addressed. In effect, these requirements provide, among other things, various procedures that may be utilized to maintain the accuracy of mailing lists in exchange for discounts on postal rates. The Company has received a subpoena from the Office of the Inspector

Legal Proceedings (continued)

General of the U.S. Postal Service, and has produced documents responsive to the subpoena. The Company continues to cooperate with the Department of Justice in the investigation, and there can be no assurance as to the timing or outcome of the investigation, including whether the investigation will result in any criminal or civil fines, penalties, judgments or treble damages or other claims against the Company. The Company established a reserve during the quarter ended March 31, 2005 relating to this investigation. However, there can be no assurance that the Company will not suffer a loss in connection with this investigation in an amount exceeding such reserve or that the Company will not be required to reserve additional amounts in future periods.

Recent Accounting Pronouncements

The Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission (SEC), contains a discussion of recent accounting pronouncements and the expected impact on the Company's financial statements. The following accounting standards have been modified during this year and are expected to have a material impact on the financial statements of the Company.

On April 14, 2005, the Securities and Exchange Commission (SEC) approved a rule that delays the effective date of SFAS No. 123R for public companies that do not file as small business issuers until the first annual or interim reporting period of the first fiscal year that begins on or after June 15, 2005. The Company plans on adopting SFAS No. 123R on January 1, 2006. The Company expects that the impact of adopting SFAS No. 123R for expensing existing stock options will have a negative impact upon its results of operations and statement of financial position. The Company expects that the impact of expensing existing stock option grants to be approximately \$0.02-\$0.03 per share in 2006. The Company does not expect the impact of adopting SFAS No. 123R to have a material impact upon its cash flow.

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154 (SFAS No. 154), "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes," and Statement of Financial Accounting Standards No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle by requiring retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The provisions of this Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the impact of SFAS No. 154 on its financial position, results of operations or cash flows to be material.

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 deconversion of the Sears consumer MasterCard and private-label accounts in the second quarter of 2006, TSYS' expectation that it will maintain the card-processing functions of Chase for at least two years, TSYS' expectation with respect to the impact of the Chase contract on its earnings per share

Forward-Looking Statements (continued)

growth for 2005 and 2006, TSYS' expectation that it will continue supporting commercial card accounts for Citibank, as well as Citibank's California Commerce consumer accounts, the expected adoption date of expensing stock options and the expected financial impact of expensing options, TSYS' expected growth in net income for 2005, the expected time of introduction to the market of certain Vital software products, any matter that may arise out of the United States Department of Justice's investigation, and the assumptions underlying such statements, including, with respect to TSYS' expected increase in net income for 2005, an increase in total revenues of 31%-33%; Vital Processing Services adding \$225-\$235 million in annual revenues; accounts on file at the end of 2005 will be between 430 and 435 million; and revenue before reimbursable items increasing 33%-35%. In addition, certain statements in future filings by TSYS with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of TSYS which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of TSYS or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," "estimates," "projects," "plans," "may," "could," "should," "would," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying these statements.

These statements are based upon the current beliefs and expectations of TSYS' management and are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements. A number of important factors could cause actual results to differ materially from those contemplated by our forward-looking statements. Many of these factors are beyond TSYS' ability to control or predict. These factors include, but are not limited to: (i) revenues that are lower than anticipated; (ii) Vital's addition to revenue is lower than anticipated; (iii) accounts on file at the end of 2005 are lower than anticipated; (iv) TSYS incurs expenses associated with the signing of a significant client; (v) internal growth rates for TSYS' existing customers are lower than anticipated; (vi) TSYS does not convert clients' portfolios as scheduled; (vii) adverse developments with respect to foreign currency exchange rates; (viii) adverse developments with respect to entering into contracts with new clients and retaining current clients; (ix) 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; (x) TSYS is unable to control expenses and increase market share; (xi) adverse developments with respect to the credit card industry in general; (xii) TSYS is unable to successfully manage any impact from slowing economic conditions or consumer spending; (xiii) the impact of acquisitions, including their being more difficult to integrate than anticipated; (xiv) the costs and effects of litigation, investigations or similar matters or adverse facts and developments relating thereto; (xv) the impact of changes in accounting principles; (xvi) TSYS' inability to timely, successfully and cost-effectively improve and implement processing systems to provide new products, increased functionality and increased efficiencies; (xvii) TSYS' inability to anticipate and respond to technological changes, particularly with respect to e-commerce; (xviii) changes occur in laws, regulations, credit card associations rules or other industry standards affecting TSYS' business which require significant product redevelopment efforts or reduce the market for or value of its products; (xix) successfully managing the potential both for patent protection and patent liability in the context of rapidly developing legal framework for expansive patent protection; (xx) no material breach of security of any of our systems; (xxi) overall market conditions;

Forward-Looking Statements (continued)

(xxii) the impact on TSYS' business, as well as on the risks set forth above, of various domestic or international military or terrorist activities or conflicts; and (xxiii) TSYS' ability to manage the foregoing and other risks.

These forward-looking statements speak only as of the date on which they are made, and TSYS undertakes no obligation to update any forward-looking statement as a result of new information, future developments or otherwise.

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 loss for the three months ended June 30, 2005 was \$3.0 million. The amount of other comprehensive income for the three months ended June 30, 2004 was \$632,000. The amount of other comprehensive loss for the six months ended June 30, 2005 was \$5.4 million. The amount of other comprehensive income for the six months ended June 30, 2004 was \$2.6 million. 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) \$135.3 million, \$3.9 million, \$0.8 million and \$13.4 million, respectively, at June 30, 2005.

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 loss of \$494,000 and \$827,000 for the three and six months ended June 30, 2005, respectively, relates to the translation of cash accounts. The balance of the foreign-denominated cash accounts subject to risk of translation gains or losses at June 30, 2005 was approximately \$5.3 million, the majority of which is denominated in Euros.

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 basis points based on the foreign-denominated cash account balance at June 30, 2005.

		Effect of Basis Point Change					
		Increase in basis point of			Decrease in basis point of		
		100	500	1,000	100	500	1,000
(in thousands)							
Effect on income before income taxes	\$	(53)	(267)	(534)	53	267	534

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

TOTAL SYSTEM SERVICES, INC.

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

Interest Rate Risk

TSYS is also exposed to interest rate risk associated with the investing of available cash and the use of 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 June 30, 2005, 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 one major customer that accounts for a large portion of its revenues, which subject it to credit risk.

Concentration of Volume of Business Transacted Risk

TSYS works to maintain a large and diverse client base across various industries to minimize the risk of any one client accounting for a large portion of its revenues. TSYS does, however, have one major customer that accounts for a large portion of its revenues. This one major customer has a long-term relationship with the Company.

TSYS utilizes several large and diverse suppliers across various industries to minimize its reliance on any one supplier. However, TSYS does rely on a relatively few major suppliers for a significant portion of its licensed computer software and hardware needs. The relationship with these particular vendors is well established. These particular vendors are large, well-known and respected entities in their industry.

TOTAL SYSTEM SERVICES, INC.
Item 4 – Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based on this evaluation, these officers have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to TSYS (including its consolidated subsidiaries) required to be included in our periodic Securities and Exchange Commission filings. No change in TSYS' internal control over financial reporting occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

TOTAL SYSTEM SERVICES, INC.
Part II - Other Information

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information regarding the Company’s purchases of its common stock on a monthly basis during the three months ended June 30, 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
				1,422,509
April 2005	-	\$-	-	-
May 2005	-	-	-	-
June 2005	-	-	-	-
Total	-	\$-		

In April 2003, the Company announced a plan to purchase up to 2.0 million shares of its common stock from time to time and at various prices over the ensuing two years. Through April 15, 2005, the Company did not repurchase any shares of its common stock during the current year. Over the course of the plan, through April 15, 2005, the Company repurchased 577,491 shares of its common stock at a cost of \$11.0 million, or an average cost of \$19.07 per share. The plan expired on April 15, 2005.

TOTAL SYSTEM SERVICES, INC.
Part II - Other Information

Item 4 - Submission of Matters to a Vote of Security Holders

The annual shareholders' meeting of Total System Services, Inc. was held April 21, 2005. There were two proposals voted on at the meeting.

Proposal I voted on at the meeting was the election of five directors. Following is a tabulation of votes for each nominee:

NOMINEE	VOTES FOR	WITHHELD AUTHORITY TO VOTE
Kriss Cloninger III	184,321,565	2,811,994
G. Wayne Clough	186,856,587	276,972
H. Lynn Page	186,796,086	337,473
Philip W. Tomlinson	185,995,464	1,138,095
Richard W. Ussery	186,000,456	1,133,103

Proposal II voted on at the meeting was the ratification of the appointment of KPMG LLP as the Independent Auditor. Following is a tabulation of votes:

FOR	186,849,961
AGAINST	240,307
ABSTAIN	43,291

TOTAL SYSTEM SERVICES, INC.
Part II - Other Information

Item 6 - Exhibits

a) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
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

**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: August 1, 2005

by: /s/ Philip W. Tomlinson

Philip W. Tomlinson
Chief Executive Officer

Date: August 1, 2005

by: /s/ James B. Lipham

James B. Lipham
Chief Financial Officer

TOTAL SYSTEM SERVICES, INC.
Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
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