

FINANCIAL APPENDIX



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SELECTED FINANCIAL DATA

The following comparisons highlight significant historical trends in TSYS' results of operations and financial condition. Total revenues and net income have grown over the last five years at compounded annual growth rates of 15.9% and 21.1%, respectively. The balance sheet data also reflect the continued strong financial position of TSYS as evidenced by the current ratio of 2.0:1 at December 31, 2001, and increased shareholders' equity. The following financial data should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and Financial Review, included elsewhere in this Annual Report.

<i>(in thousands except per share data)</i>	Years Ended December 31,				
	2001	2000	1999	1998	1997
Income Statement Data:					
Revenues:					
Bankcard data processing services	\$ 563,573	505,935	456,840	350,310	324,718
Other services	86,835	95,358	77,086	45,884	36,781
Total revenues	650,408	601,293	533,926	396,194	361,499
Expenses:					
Salaries and other personnel expense	258,119	235,670	207,618	160,855	147,438
Net occupancy and equipment expense	169,535	162,906	151,964	105,658	94,685
Other operating expenses	87,422	90,111	86,052	63,312	59,447
Total operating expenses	515,076	488,687	445,634	329,825	301,570
Equity in income of joint ventures	17,824	15,586	12,327	12,974	9,347
Operating income	153,156	128,192	100,619	79,343	69,276
Nonoperating income:					
Gain (loss) on disposal of property and equipment, net	(90)	(1,422)	798	(48)	(36)
Interest income, net of interest expense	2,681	5,037	2,159	2,492	2,315
Minority interest in subsidiary's net income	(76)	(99)	—	—	—
Other, net	122	—	—	—	—
Total nonoperating income	2,637	3,516	2,957	2,444	2,279
Income before income taxes	155,793	131,708	103,576	81,787	71,555
Income taxes	52,891	46,065	34,983	26,956	24,077
Net income	\$ 102,902	85,643	68,593	54,831	47,478
Basic earnings per share	\$.53	.44	.35	.28	.24
Diluted earnings per share	\$.53	.44	.35	.28	.24
Cash dividends declared per share	\$.060	.048	.040	.038	.030
Weighted average common shares outstanding	194,773	194,785	194,913	194,020	193,956
Weighted average common and common equivalent shares outstanding	195,604	195,265	195,479	194,669	194,239

<i>(in thousands)</i>	December 31,				
	2001	2000	1999	1998	1997
Balance Sheet Data:					
Total assets	\$ 652,277	601,224	463,622	353,775	299,958
Working capital	103,801	63,655	76,414	60,472	70,899
Total long-term debt	—	—	204	342	475
Shareholders' equity	500,812	409,014	334,292	270,354	221,255

FINANCIAL REVIEW

This Financial Review provides a discussion of critical accounting policies, related party transactions, off-balance sheet arrangements, the results of operations, financial condition, liquidity and capital resources of TSYS and outlines the factors that have affected its recent earnings, as well as those factors that may affect its future earnings. The accompanying Consolidated Financial Statements and related Notes and Selected Financial Data are an integral part of this Financial Review and should be read in conjunction with it.

Critical Accounting Policies

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

RISKS AND UNCERTAINTIES AND USE OF ESTIMATES: 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 can differ from assumed and estimated amounts.

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, an inability to grow through acquisitions or successfully integrate acquisitions, technology changes, financial services consolidation, increased regulatory mandates, a decline in the use of credit cards as a payment mechanism, or a decline in the financial stability of the Company's customers.

Negative developments in these or other risk factors could have a material adverse effect on the Company's financial position and results of operations.

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

ACCOUNTS RECEIVABLE: Accounts receivable balances are stated net of allowances for doubtful accounts and billing adjustments of \$5.4 million and \$5.8 million at December 31, 2001 and 2000, respectively. The allowance represents 4.5% and 5.7% of accounts receivable at 2001 and 2000, respectively. TSYS' client base mainly consists of financial institutions and other card issuers such as major retailers. Historically, the Company has not encountered any significant write-offs.

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

Increases in the allowance for doubtful accounts are recorded as bad debt expense and are reflected in other operating expenses in the Company's consolidated statements of income.

TSYS records provisions for billing adjustments for potential billing discrepancies. When estimating the provision for billing adjustments, the

Company considers prior history of billing adjustments. Increases in the provision for billing adjustments are recorded net of revenues in the Company's consolidated statements of income.

REVENUE RECOGNITION: The Company's bankcard processing revenues are derived from long-term processing contracts with banks and other institutions and are recognized as revenues at the time the service is performed. Bankcard data processing revenues are generated primarily from charges based on the number of accounts billed, transactions and authorizations processed, statements mailed, and other processing services for cardholder accounts on file. Most of these contracts have prescribed minimums. The terms of contracts generally range from three to ten years in length.

The Company's other service revenues are derived from printing activities and customer relationship management services, such as call center activities for card activation and balance transfer requests. The contract terms for these services are generally shorter in nature, and some are project based. Revenue is recognized on these other services either on a per unit or a fixed price basis. The Company uses the percentage of completion method of accounting for its fixed price contracts.

CONTRACT ACQUISITION COSTS: The Company capitalizes contract acquisition costs related to signing or renewing long-term contracts. These costs, primarily consisting of cash payments for rights to provide processing services and internal conversion and software development costs, are amortized using the straight-line method over the contract term beginning when the client's cardholder accounts are converted to the system. All costs incurred prior to contract execution are expensed as incurred.

The amortization of these costs is recognized in other operating expenses. The Company evaluates the carrying value of contract acquisition costs for impairment on the basis of whether these costs are fully recoverable from expected undiscounted net operating cash flows of the related contract. The determination of expected undiscounted net operating cash flows requires management to make estimates.

These costs may become impaired with the loss of a contract, the financial decline of a customer, termination of conversion efforts after a contract is signed, diminished prospects for current customers or if the Company's estimates of future cash flows differ from actual results. Capitalized contract acquisition costs are classified in prepaid and other assets.

SOFTWARE DEVELOPMENT COSTS: The Company develops software that is used in providing transaction processing services to clients. Software development costs are capitalized once technological feasibility of the software has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed all planning, designing, coding and testing activities that are necessary to determine that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available to customers for general use. The Company evaluates the unamortized capitalized costs of software development as compared to the net realizable value of the development which is determined by projected future cash flows. The amount by which the unamortized software development costs exceed the net realizable value are written off. Software development costs are amortized using the greater of (1) the straight-line method over the estimated useful life (which ranges from 3-10 years) or (2) the ratio of current revenues to current anticipated revenues.

Software development costs may become impaired in situations where development efforts are abandoned due to the viability of the

planned project becoming doubtful or due to technological obsolescence of the planned project.

TRANSACTION PROCESSING PROVISIONS: The Company has made certain estimates to accrue for contract contingencies and processing errors. When providing for these accruals, the Company takes into consideration such factors as the prior history of contract penalties and processing errors incurred, contractual penalties inherent in the Company's contracts, progress towards meeting milestones and amounts not covered by insurance.

These accruals are recorded in other current liabilities in the accompanying consolidated balance sheets. Increases and decreases in transaction processing provisions are reflected in other operating expenses in the Company's consolidated statements of income.

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES: The Company evaluates the recoverability of property and equipment, identifiable intangibles and goodwill by comparing the carrying amount of the asset against the estimated undiscounted cash flows associated with it. Should the sum of the expected future cash flows be less than the carrying value of the asset being evaluated, the Company uses fair value in determining the amount of impairment loss that should be recorded. The determination of undiscounted net operating cash flows requires management to make estimates.

EQUITY INVESTMENTS: TSYS' 49% investment in Total System Services de México, S.A. de C.V. (TSYS de México), a bankcard data processing support operation located in Mexico, is accounted for using the equity method of accounting, as is TSYS' 50% investment in Vital Processing Services L.L.C. (Vital), a merchant processing operation headquartered in Tempe, Arizona.

INCOME TAXES: Income taxes reflected in TSYS' consolidated financial statements are computed based on the taxable income of TSYS as if TSYS were a stand-alone tax paying entity. A consolidated federal income tax return is filed for Synovus and its majority owned subsidiaries, including TSYS.

The Company accounts for income taxes in accordance with the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Income tax provisions require the use of management judgements, which are subject to challenge by various taxing authorities. Estimates relate to the determination of taxable income, the determination of temporary differences between book and tax bases, as well as anticipated tax credits and related provisions.

Related Party Transactions

The Company provides bankcard processing services and other services for its parent company, Synovus Financial Corp. (Synovus), and its affiliates, and for Vital and TSYS de México. The services are performed under negotiated contracts. The Company believes the terms and conditions of transactions between the Company and Synovus and its affiliates are comparable to those which could have been obtained in transactions with unaffiliated parties.

TSYS has entered into agreements with Columbus Bank and Trust Company (CB&T) and certain of its affiliates, pursuant to which TSYS performs bankcard data processing services. Such bankcard data processing service revenues were \$12.9 million, \$12.3 million and \$8.0 million during

the years ended December 31, 2001, 2000 and 1999, respectively. Miscellaneous data processing services performed by TSYS for certain Synovus nonbanking affiliates generated revenues of \$480,000, \$256,000 and \$222,000 during the years ended December 31, 2001, 2000 and 1999, respectively; these revenues are included in bankcard data processing services.

Bankcard data processing revenues related to TSYS de México, the Company's Mexican joint venture, were \$15.9 million, \$15.7 million and \$16.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Merchant processing revenues, included in bankcard data processing revenues, related to Vital, the Company's joint venture with Visa, were \$15.1 million, \$14.1 million and \$12.9 million for the years ended December 31, 2001, 2000 and 1999, respectively.

During 2001 and 2000, TSYS provided web hosting and electronic commerce processing services to CB&T for which the Company was paid \$470,000 and \$546,000, respectively.

Revenues from other services provided by TSYS to Synovus and its affiliates were \$6.4 million, \$6.6 million and \$5.5 million during the years ended December 31, 2001, 2000 and 1999, respectively.

During 2000 and 1999, Synovus Technologies, Inc. (STI) paid TSYS \$143,000 and \$168,000, respectively, for data links, network services, computer processing services and other miscellaneous items. In January 2001, STI was folded into Synovus to take advantage of operating efficiencies. In 2001, Synovus paid TSYS \$106,000 for data links, network services, computer processing services and other miscellaneous items.

In September 1999, Synovus completed the acquisition of the debt collection and bankruptcy management business offered by Wallace & de Mayo. The services provided by Wallace & de Mayo included recovery collections work, bankruptcy process management, legal account management and skip tracing. These services are being marketed through the Company under the name TSYS Total Debt Management, Inc. (TDM) for which Synovus paid TSYS a management fee of \$1.5 million in 2001 and \$505,000 in 2000.

Effective January 1, 2002, TSYS acquired TDM in exchange for 2,175,000 newly issued shares of TSYS common stock with a market value of approximately \$43.5 million. The TDM valuation was performed by an independent professional appraisal firm. TDM will operate as a separate subsidiary of TSYS. This transaction increased CB&T's ownership of TSYS to 81.1% in 2002.

In May 2000, Synovus completed the acquisition of ProCard, Inc., a provider of software and Internet tools designed to assist organizations with the management of purchasing, travel and fleet card programs. Synovus' acquisition of ProCard offers TSYS the opportunity to further expand its services to ProCard's clients. ProCard's software solutions have been integrated into TSYS' processing solutions. The Company is assisting in managing ProCard, for which the Company was paid a management fee by Synovus of \$303,000 in 2001 and \$177,000 in 2000.

TSYS maintains deposit accounts with CB&T, the majority of which earn interest and on which TSYS receives market rates of interest. Included in cash and cash equivalents are deposit balances with CB&T of \$45.9 million and \$74.6 million at December 31, 2001 and 2000, respectively.

In 2001, 2000 and 1999, TSYS received interest income of \$2,305,617, \$4,772,461 and \$1,865,621, respectively, from CB&T. TSYS paid banking account service fees and wire transfer fees to CB&T of \$46,396 in 2001, \$68,004 in 2000 and \$53,195 in 1999.

TSYS maintains an unsecured credit agreement with CB&T. The credit agreement has a maximum available principal balance of \$5.0 million, with interest at prime. TSYS did not use the credit facility during 2001 or 2000.

TSYS paid cash dividends to CB&T in the amount of approximately

\$9.0 million, \$7.1 million and \$6.3 million in 2001, 2000 and 1999, respectively. TSYS received cash dividends from its equity joint ventures of approximately \$7.1 million, \$5.4 million and \$5.1 million in 2001, 2000 and 1999, respectively. As part of the restructured joint venture agreement in 2001, TSYS received a capital distribution of approximately \$3.3 million from TSYS de México.

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 ownership risk of technological obsolescence. Neither the assets nor liabilities related to these leases are included on the balance sheet. One of the Company's most significant leases is its synthetic lease for its corporate campus (see Off-Balance Sheet Arrangements and Contractual Cash Commitments and Note 9.)

LOAN GUARANTEE: In the fourth quarter of 1999, the Company made a payment representing a contract acquisition cost of \$10.0 million to a prospective client. Under the terms of the arrangement, the prospective client agreed to repay the \$10.0 million in the event a processing agreement was not executed by July 1, 2000. Subsequently, the prospective client announced its intention to exit the credit card business through a sale of its accounts in 2000. The parent of the prospective client repaid the \$10.0 million advance in June 2000 by obtaining a five-year loan from CB&T. TSYS agreed to guarantee the loan. As of December 31, 2001, all payments on the loan have been made timely. The outstanding loan balance at December 31, 2001, was \$7.5 million. The Company does not anticipate any negative consequences to its results of operations and financial condition as a result of its loan guarantee.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141 (SFAS 141), "Business Combinations," and Statement No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, (SFAS 121) "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company adopted the provisions of SFAS 141 effective July 1, 2001, and adopted SFAS 142 effective January 1, 2002.

At December 31, 2001, the Company has unamortized goodwill in the amount of \$3.6 million, which will be subject to the transition provisions of SFAS 142. Amortization expense related to goodwill was \$889,000 and \$528,000 for the years ended December 31, 2001 and 2000, respectively. The Company is in the process of evaluating the impact on the Company's financial statements of adopting SFAS 142 at the date of this report and does not believe it will have any transitional impairment losses to be reported as a cumulative effect of a change in accounting principle.

In August 2001, the FASB issued Statement No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 143 addresses finan-

cial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to all entities. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain lease obligations. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company has assessed the adoption of SFAS 143 and does not expect any impact on the Company's financial statements.

In October 2001, the FASB issued Statement No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121 and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary.

SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The provisions are to be applied prospectively. Management does not expect the adoption of SFAS 144 to have a material effect on its financial condition or results of operations.

At the November 2001 Emerging Issues Task Force (EITF) meeting, the FASB released Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." The FASB Staff Announcement clarified interpretations of EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," stating that the Staff believes that reimbursements received for out-of-pocket expenses should be characterized as revenue. Historically, TSYS has not reflected such reimbursements in its consolidated statements of income. The largest expenses, for which TSYS is reimbursed by clients, are postage and express courier charges.

The FASB Staff Announcement requires adoption in financial reporting periods beginning after December 15, 2001. Upon application of this FASB Staff Announcement, comparative financial statements for prior periods will be reclassified to provide consistent presentation.

TSYS does not expect the new FASB Staff Announcement to have any impact on its financial position, operating income and net income. However, TSYS' operating and net income margins will be reduced as the result of the gross-up of revenues and expenses for reimbursable expenses. The following table shows the expected impact of adopting the FASB Staff Announcement on revenues, operating margins and net income margins for 2001, 2000 and 1999:

As Reported	2001	2000	1999
Revenues (in millions) \$	650.4	601.3	533.9
Operating Margin	23.5%	21.3%	18.8%
Net Income Margin	15.8%	14.2%	12.8%
After Reclassification	2001	2000	1999
Revenues (in millions) \$	896.2	836.3	739.1
Operating Margin	17.1%	15.3%	13.6%
Net Income Margin	11.5%	10.2%	9.3%

- Operating margin equals operating income divided by revenue.
- Net income margin equals net income divided by revenue.

The following table sets forth certain revenue and expense items as a percentage of total revenues and the percentage increase or decrease in those items from the table of Selected Financial Data presented on page F-2:

	Percentage of Total Revenues Years Ended December 31,			Percentage Change in Dollar Amounts	
	2001	2000	1999	2001 vs 2000	2000 vs 1999
	Revenues:				
Bankcard data processing services	86.6%	84.1	85.6	11.4	10.7
Other services	13.4	15.9	14.4	(8.9)	23.7
Total revenues	100.0	100.0	100.0	8.2	12.6
Expenses:					
Salaries and other personnel expense	39.7	39.2	38.9	9.5	13.5
Net occupancy and equipment expense	26.1	27.1	28.5	4.1	7.2
Other operating expenses	13.4	15.0	16.1	(3.0)	4.7
Total operating expenses	79.2	81.3	83.5	5.4	9.7
Equity in income of joint ventures	2.7	2.6	2.3	14.4	26.4
Operating income	23.5	21.3	18.8	19.5	27.4
Nonoperating income:					
Gain (loss) on disposal of property and equipment, net	(0.0)	(0.2)	0.2	nm	nm
Interest income, net of interest expense	0.4	0.8	0.4	(46.8)	133.3
Minority interest in subsidiary's net income	(0.0)	(0.0)	—	nm	nm
Other, net	0.0	—	—	nm	nm
Total nonoperating income	0.4	0.6	0.6	(25.0)	18.9
Income before income taxes	23.9	21.9	19.4	18.3	27.2
Income taxes	8.1	7.7	6.6	14.8	31.7
Net income	15.8%	14.2	12.8	20.2	24.9

nm = not meaningful

Results of Operations

Revenues

TSYS' revenues are derived from providing bankcard data processing and related services to banks and other institutions, generally under long-term processing contracts. TSYS' services are provided through the Company's cardholder systems, TS2 and TS1, to financial institutions and other organizations throughout the United States, Mexico, Canada, Honduras, the Caribbean and Europe. The Company currently offers merchant services to financial institutions and other organizations in Japan.

Bankcard Data Processing Services

Bankcard data processing revenues are generated primarily from charges based on the number of accounts billed, transactions and authorizations processed, statements mailed, credit bureau requests, credit 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 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 bankcard data processing services have continued to grow. 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,

bankcard data 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.

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 in card portfolios of existing clients, the conversion of cardholder accounts of new clients to the Company's processing platforms, and the loss of cardholder accounts impact the results of operations from period to period. Another factor, among others, which may affect TSYS' revenues and results of operations from time to time is the sale by a client of its business, its card portfolio or a segment of its accounts to a party which processes cardholder accounts internally or uses another third-party processor. Consolidation in the financial services and retail industries could favorably or unfavorably impact TSYS' financial condition and results of operations in the future.

The Company's revenues are also impacted by the use of value added products and services of TSYS' processing systems by clients. Value added products and services are included in bankcard data processing revenues

and consists of optional features each client can choose to subscribe to in order to 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, such as loyalty programs and bonus rewards. For the years ended December 31, 2001, 2000 and 1999, value added products and services represented 13.8%, 12.4% and 11.5% of total revenues, respectively. Revenues from these products and services increased 8.2%, or \$15.0 million, for 2001 compared to 2000, and increased 22.2%, or \$13.6 million, for 2000 compared to 1999. The Company changed its accounting policy in early 2001 for recognizing revenue for one of the value added products and services it offers clients. Prior to that time, the Company was recognizing revenue one month in arrears. Due to the availability of historical data the Company has accumulated over a set amount of time, the Company determined that it now can reasonably estimate its current monthly revenue with some precision. During 2001, the Company recognized, as a result of the change, thirteen months of revenue, or an additional \$1.4 million, for this one value added product and service.

The average number of cardholder accounts on file increased 5.9% to 206.1 million in 2001, compared to 194.6 million in 2000, which represented a 7.9% increase over 180.4 million in 1999. At December 31, 2001, TSYS' cardholder accounts on file were approximately 218.5 million, compared to 195.2 million and 206.2 million at December 31, 2000 and 1999, respectively. The change in cardholder accounts on file at December 31, 2001, as compared to December 31, 2000, included the deconversion of 7.9 million accounts, the addition of approximately 14.8 million accounts attributable to the internal growth of existing clients, and approximately 16.4 million accounts added for new clients. The change in cardholder accounts on file at December 31, 2000, as compared to December 31, 1999, included the deconversion of 36.9 million accounts of Universal Card Services (UCS) and others, the addition of approximately 24.8 million accounts attributable to the internal growth of existing clients, and approximately 1.1 million accounts added for new clients.

The Company provides card processing services to its clients including commercial, retail and consumer cards. Commercial cards include purchasing cards, corporate cards and fleet cards for employees. Retail cards include private label and gift cards. Consumer cards include Visa and MasterCard bank and debit cards as well as American Express cards and stored value cards. The following table summarizes TSYS' accounts on file by portfolio type:

Accounts on File by Type (in millions)				Percent	Percent
	2001	2000	1999	Change 2001 vs 2000	Change 2000 vs 1999
Consumer	127.2	90.7	106.7	40.3	(15.0)
Retail	73.5	90.1	88.7	(18.5)	1.5
Commercial	17.8	14.4	10.8	23.8	33.2
Total	218.5	195.2	206.2	11.9	(5.3)

Based upon available market share data, the Company believes it has a 20% market share of the domestic Visa and MasterCard consumer card processing arena; an 87% share of the Visa and MasterCard domestic commercial card processing market; a 17% share of the domestic retail card processing

market; and a 5% market share of the U.S. off-line debit processing market at the end of 2001. TSYS competes with other third-party bankcard processors. The Company believes it has significant growth opportunities as in-house processors and issuers processed by competitors realize the potential for reduced costs and better portfolio performance offered through TSYS' processing solutions.

At December 31, 2001, TSYS was processing approximately 127.2 million consumer card accounts, a 40.3% increase from the approximately 90.7 million being processed at year-end 2000, which was a 15.0% decrease over the 106.7 million at year-end 1999. The increase in consumer accounts in 2001 was primarily the result of converting the portfolios of The Royal Bank of Scotland Group plc (RBS) and Allied Irish Banks plc (AIB). The decrease in consumer accounts in 2000 compared to 1999 was the result of the deconversion of the portfolio of UCS. Future growth in consumer card revenue is dependent upon increased card activity, continued internal growth in clients' portfolios and acquisition of new clients. Also impacting the increase in consumer cards is the number of retail card accounts that are being converted to consumer card accounts (more information is provided in the discussion of retail card accounts.)

In 1999, as a result of the completion of the conversions of the account portfolios for Sears and Nordstrom, TSYS became a leading third-party processor of retail accounts. At December 31, 2001, TSYS was processing approximately 73.5 million retail card accounts, an 18.5% decrease over the approximately 90.1 million being processed at year-end 2000, which represented a 1.5% increase over the 88.7 million at year-end 1999. The majority of the 16.6 million decrease in retail accounts in 2001 was the result of a portfolio "flip" of retail accounts by Sears to a MasterCard portfolio. The 1.4 million increase in retail accounts in 2000 was net of a decrease of seven million inactive Sears accounts converted to a MasterCard portfolio. Traditional retail card operations are beginning to increase the activity of their portfolios by converting inactive accounts to Visa/MasterCard bankcards. TSYS is able to provide its extensive bankcard processing tools and techniques, as well as value-added functionality, to traditional retail card operations allowing better segmentation and potentially increased profitability for clients. In November 2000, TSYS announced a multiyear agreement with Target Stores to process the retailer's new consumer Visa Card.

In January 2002, TSYS announced the signing of a multiyear agreement to process 13 million Fashion Bug private-label card accounts for Charming Shoppes, Inc., one of the leading specialty apparel retailers in America.

TSYS provides processing services for commercial cards. At December 31, 2001, TSYS was processing approximately 17.8 million commercial card accounts, a 23.8% increase over the 14.4 million commercial card accounts being processed at year-end 2000, which was a 33.2% increase over the approximately 10.8 million being processed at year-end 1999. Future growth in commercial card revenue will mainly result from increased card activity as more business purchasing is transacted electronically and as additional firms realize the benefits of converting their paper-based purchasing systems to electronic transactions.

TSYS provides processing services to its clients worldwide and plans to continue to expand its service offerings internationally in the future. In 2000, the Company announced the signing of RBS and AIB to multi-year processing agreements. The portfolios of both clients, approximately nine million accounts, were fully converted by the third quarter of 2001.

The following table summarizes TSYS' accounts on file by area:

Accounts on File by Area (in millions)	2001	2000	1999	Percent	Percent
				Change 2001 vs 2000	Change 2000 vs 1999
Domestic	190.4	178.4	190.4	6.6	(6.3)
International	28.1	16.8	15.8	66.9	6.1
Total	218.5	195.2	206.2	11.9	(5.3)

A significant amount of the Company's revenues is derived from long-term contracts with large clients, including certain major customers. In September 1999, TSYS announced a new ten-year agreement with the Bank of America Corporation to continue processing its credit card portfolio until 2009. Bank of America accounted for approximately 16%, 16% and 16% of total revenues for the years ended December 31, 2001, 2000 and 1999, respectively. The loss of Bank of America, or any other major or significant clients, could have a material adverse effect on the Company's financial condition and results of operations.

Near the end of the first quarter of 1998, AT&T completed the sale of UCS to CITIBANK, a part of Citigroup. CITIBANK accounted for approximately 13% of total revenues for the year ended December 31, 1999. On February 26, 1999, CITIBANK notified TSYS of its decision to terminate UCS' processing agreement with TSYS for consumer credit card accounts at the end of its original term on August 1, 2000. Although it remains a client, CITIBANK was not a major customer of the Company for the years ended December 31, 2001 and 2000.

The Company has a long-term processing relationship with Providian Financial Corporation (Providian), one of the largest bankcard issuers in the nation. In October 2001, the Company announced it signed a multiyear extension to its long-term credit card-processing agreement with Providian, which included a cash payment for processing rights of \$12.7 million. Providian accounted for approximately 13% and 11% of total revenues for the years ended December 31, 2001 and 2000, respectively. Providian was not a major customer in 1999. In late 2001, Providian made several announcements regarding concerns about its financial status, related changes in management and the sale of a portion of its portfolio. As a result of these announcements, TSYS management is actively monitoring Providian's status through frequent interaction. The loss of Providian, or any other major or significant clients, could have a material adverse effect on the Company's financial condition and results of operations.

In May 1998, the Company announced the signing of a long-term processing agreement with Sears, Roebuck and Co. to convert and process its 65 million retail accounts. TSYS successfully completed the conversion in May 1999. In January 2000, the Company announced a one-year extension of its long-term retail processing agreement with Sears until 2010. Sears accounted for approximately 10% of total revenues for the year ended December 31, 2000. Sears was not a major customer in 2001, nor was it a major customer in 1999. The loss of Sears, or any other major or significant clients, could have a material adverse effect on the Company's financial condition and results of operations.

The Company did experience a drop in transaction and authorization volumes on September 11, 2001, and the following weeks as a result of the terrorist attacks. In the ensuing weeks, those processing

volumes returned to normal levels as consumers resumed their daily activities. TSYS did not experience any material financial impact as a result of the September 11th terrorist attacks. The Company has experienced a delay by potential clients of pursuing processing agreements as those clients focus on matters such as disaster recovery and other internal processes.

In August 2000, the Company announced that it had entered the Asian card market by purchasing a controlling equity interest in GP Network Corporation (GP Net), an established electronics payment company for more than 100,000 merchants in Japan. GP Net's revenues are included in bankcard processing revenues and were not significant to total revenues during either 2001 or 2000. TSYS also announced the opening of a branch office in Japan to facilitate its marketing of processing services for card-issuing financial institutions and retailers.

In March 2000, the Company announced its intention to launch a new, wholly owned subsidiary, DotsConnect, Inc. (DotsConnect), to focus exclusively on the electronic payments (e-payments) market. DotsConnect delivered premier e-payments software that allowed buyers and sellers to conduct commerce electronically. DotsConnect commenced operations on May 1, 2000, with approximately 30 team members comprising the initial DotsConnect team.

In November 2001, TSYS announced its decision to integrate the operations of DotsConnect into a separate division of TSYS. The function of DotsConnect will remain the same – supporting e-commerce services. The decision was made to better serve TSYS' clients through more productive and efficient processes. The integration became effective January 1, 2002.

Other services

Revenues from other services consist primarily of revenues generated by TSYS' wholly owned subsidiaries, Columbus Depot Equipment Company (CDEC), TSYS Total Solutions, Inc. (TSI), and Columbus Productions, Inc. (CPI). CDEC provides TSYS clients with an option to lease certain equipment necessary for online communications and for the use of TSYS applications. TSI provides TSYS clients and others with mail and correspondence processing services, teleservicing, data documentation capabilities, offset printing, client service, collections and account solicitation services. CPI provides full-service commercial printing services to TSYS clients and others.

Effective January 1, 1999, TSYS acquired Partnership Card Services (PCS) from its majority shareholder, CB&T, the flagship bank of Synovus, for \$20.1 million. The business of PCS became part of TSYS' wholly owned subsidiary, TSI.

Revenues from other services decreased \$8.5 million, or 8.9%, in 2001, compared to 2000. In 2000, revenues from other services increased \$18.3 million, or 23.7%, compared to 1999. The majority of revenues from other services are generated by TSI. During 2001, one of TSI's major clients stopped outsourcing certain functions to TSI as a result of changes in economic uncertainties, business contraction and discontinuing certain services. As a result, TSI's revenues during 2001 were negatively impacted.

In November 2001, TSYS announced its decision to integrate the operations of TSI into a separate division of TSYS. The functions of TSI will remain the same — supporting customer care and business process management solutions. The decision was made to better serve TSYS'

clients through more productive and efficient processes. The integration became effective January 1, 2002.

Operating Expenses

As a percentage of revenues, operating expenses decreased in 2001 to 79.2%, compared to 81.3% and 83.5% for 2000 and 1999, respectively. The principal decreases in operating expenses as a percentage of revenue in 2001 as compared to 2000 resulted from a concerted emphasis on expense control, management fee income from Synovus, a focus on improved processes, lower provisions for bad debt expense, lower provisions for transaction processing accruals and a reduction in amortization of contract acquisition costs. Operating expenses were \$515.1 million in 2001, compared to \$488.7 million in 2000 and \$445.6 million in 1999.

Salaries and other personnel expense increased 9.5% in 2001 over 2000, compared to 13.5% in 2000 over 1999. A significant portion of TSYS' operating expenses relates to salaries and other personnel costs. During 2001, the average number of employees increased to 4,933, compared to 4,606 in 2000 and 4,106 in 1999. The change in total employment costs consists of increases of \$39.6 million, \$37.2 million and \$61.7 million in 2001, 2000 and 1999, respectively. The increase in total employment costs is associated with the growth in the number of employees, normal salary increases and related employee benefits. These increases were reduced by \$17.2 million, \$9.1 million and \$14.9 million in 2001, 2000 and 1999, respectively, invested in software development and contract acquisition costs.

Due to the importance of technology to its business, a significant portion of TSYS' employees are programmers—approximately 21.3% in 2001, compared to 20.2% and 22.7% in 2000 and 1999, respectively. The Company participates in the state of Georgia's incentive program called Intellectual Capital Partnership Program (ICAPP). ICAPP is a commitment by the state of Georgia for classrooms, teachers, computer equipment and high-tech training designed to meet Georgia businesses' needs for technical analysts, computer systems personnel and mainframe programmers. As of December 31, 2001, approximately 687 graduates of ICAPP had become full-time employees of TSYS. The Company considers ICAPP to be a very successful program and plans to continue to utilize ICAPP in the future to fulfill entry-level programming and other technical positions. Although TSYS has not experienced difficulty in recruiting programming personnel, there can be no assurance that TSYS will be able to continue to recruit, hire and retain sufficient numbers of technical personnel necessary to support its continued growth.

Net occupancy and equipment expense increased 4.1% in 2001 over 2000, compared to 7.2% in 2000 over 1999. Computer equipment and software rentals, which represent the largest components of net occupancy and equipment expense, remained consistent in 2001 and 2000. Due to rapidly changing technology in computer equipment and software, TSYS' equipment and software needs are fulfilled primarily through operating leases. In anticipation of the deconversion of a significant client in 2000, TSYS made a concerted effort to improve processing productivity and implemented significant cost controls.

During 1999, the Company made significant investments in computer software licenses related to a new data center located in east Columbus to accommodate increased volumes and expected growth in the number of accounts associated with new and existing clients. As additional software licenses are acquired, net occupancy and equipment expense may increase as a result of the amortization of the costs associated with these new licenses.

TSYS continues to monitor and assess its building, software and computer equipment needs as it positions itself for future growth and expansion. The Company has entered into an operating lease agreement relating to its corporate campus. Under the agreement, the lessor, a special purpose entity, purchased the land, obtained financing from a syndicate of banks, paid the construction and development costs and leased the facilities to the Company. The lease provides for substantial residual value guarantees and includes purchase options at the original cost of the property. Real

estate taxes, insurance, maintenance and operating expenses applicable to the leased property are the obligations of the Company. The Company began moving personnel into the campus facility in December 1998, and had completed the move of a substantial number of its personnel to the campus by the end of the third quarter of 1999. With the move to the corporate campus, the Company did not renew leases on certain facilities. The increase in net occupancy and equipment expenses related to occupying the campus was \$9.6 million in 2000 and \$6.4 million in 1999, net of the relinquished lease obligations.

In 1999, TSYS opened an office in London which currently serves as the headquarters for TSYS' European operations. During 2000, TSYS opened a European data center in the United Kingdom.

In December 2000, TSYS purchased a 40,000 square-foot building and equipment in York, England for approximately \$13.0 million. The building houses client service and administrative personnel for TSYS Europe. The Company has leased back 17,000 square-feet to the previous owner. Although it only began processing accounts for its new European clients during the last six months of 2001, the Company had to build the necessary infrastructure in order to begin processing those accounts in 2001. Through 2001, the Company incurred \$16.4 million of operating expenses, net of revenues, related to the expansion in Europe.

In March 2001, the Company announced plans to move its materials management division and its printing subsidiary, CPI, into a new building in east Columbus. The 61,000 square-foot building was completed in August 2001 at a cost of approximately \$3.7 million. In conjunction with the move, CPI sold its existing location for \$960,000. While waiting on construction of the new building to be completed, CPI leased the existing facility from the new owner.

In July 2000, TSYS broke ground on a 33,000 square foot childcare facility which is located on the northeast corner of the campus. The new facility offers the Company's employees an alternative option for childcare needs. The facility was completed at a cost of approximately \$3.5 million and opened in August 2001. The Company expects to recover a significant portion of its building costs through future state tax credits from the state of Georgia for setting up a company-sponsored childcare facility.

BANKCARD REVENUES
(Millions of Dollars)



Other operating expenses decreased 3.0% in 2001 compared to 2000, and increased 4.7% in 2000 compared to 1999. Other operating expenses were impacted by the amortization of contract acquisition costs, the provision for bad debt expense, the provision of transaction processing accruals and the amount of management fee income TSYS received from Synovus for management services TSYS provided to TDM and ProCard. Amortization of contract acquisition costs was \$6.5 million, \$7.5 million and \$12.3 million in 2001, 2000 and 1999, respectively. For 2001, 2000 and 1999, transaction processing provisions were \$1.4 million, \$5.7 million and \$6.9 million, respectively. TSYS received \$1.8 million in 2001, and \$682,000 in 2000 for management services from Synovus.

Equity in Income of Joint Ventures

TSYS' share of income from its equity in joint ventures was \$17.8 million, \$15.6 million and \$12.3 million for 2001, 2000 and 1999, respectively. The increase in 2001 is primarily the result of Vital's improved operating results as a result of increased volumes and expense control.

The Company has completed negotiations with its Mexican partners to restructure its Mexican joint venture agreement whereby TSYS will process for the member banks directly instead of processing through the joint venture. The joint venture, TSYS de México, will continue to print statements and provide card-issuing services to the joint venture clients and others. The Company has executed contracts with banks that represent approximately 73% of the account-on-file base in Mexico. The net effect of the restructuring will result in a decrease in equity in income of joint ventures while bankcard processing revenues should increase. The increase in revenues is not expected to significantly impact the Company's bankcard data processing revenues.

Beginning in 2001, and as a result of the restructuring of its joint venture agreement, TSYS agreed to pay TSYS de México a management fee for certain client relationship services that TSYS de México has assumed from TSYS. TSYS paid TSYS de México a management fee of \$300,587 in 2001.

Operating Income

Operating income increased 19.5% to \$153.2 million in 2001, compared to \$128.2 million in 2000, an increase of 27.4% over 1999 operating income of \$100.6 million in 1999. Excluding equity in income of joint ventures, operating income increased 20.2% to \$135.3 million in 2001, compared to \$112.6 million in 2000, an increase of 27.5% over the amount for 1999 of \$88.3 million. The operating income margin increased to 23.5% in 2001, compared to 21.3% and 18.8% in 2000 and 1999, respectively. The increases in the operating margin were the result of revenues increasing at a faster rate than operating expenses in 2001 and 2000. In 2002, TSYS will adopt FASB Staff Announcement Topic D-103. As a result of its adoption and implementation, operating margins will decrease in the future.

Nonoperating Income

Nonoperating income decreased in 2001 compared to 2000 and increased in 2000 over 1999 primarily due to the amount of interest the Company earned on its cash investments. Interest income for 2001 was \$2.7 million, a 46.7% decrease compared to \$5.1 million in 2000, which was a 131.7% increase compared to \$2.2 million in 1999. The variation in interest income is primarily attributable to the fluctuations in the cash available for investment and lower short-term interest rates.

Income Taxes

Income tax expense was \$52.9 million, \$46.1 million and \$35.0 million in

2001, 2000 and 1999, respectively, representing effective income tax rates of 33.9%, 35.0% and 33.8%, respectively. TSYS' decrease in its effective income tax rate for 2001 was the result of the recognition of state tax credits. The Company expects its tax rates in the future to gradually increase over time primarily as a result of federal and state tax credits growing slower than pretax income.

Net Income

Net income increased 20.2% to \$102.9 million (basic and diluted earnings per share of \$0.53) in 2001, compared to 2000. In 2000, net income increased 24.9% to \$85.6 million (basic and diluted earnings per share of \$0.44), compared to \$68.6 million (basic and diluted earnings per share of \$0.35) in 1999.

Projected Outlook 2002

TSYS expects an increase in net income for 2002 over 2001 of 20%. This anticipated increase in net income is based in part upon the following assumptions: a 10-12% internal growth rate for existing portfolios; an aggressive focus on expense control and productivity improvement; the successful implementation and market acceptance of new product offerings; and an increase in the total cardholder base to approximately 245 million accounts. Factors that could prevent TSYS from achieving this objective include 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, adverse developments with respect to existing and prospective clients, TSYS' inability to control expenses and uncertain economic conditions.

Extended Financial Outlook for 2003

With the continued expansion of the Company's businesses, both domestically and internationally, market acceptance of new products and services and aggressive expense management, TSYS expects to increase its annual net income by at least 20-25% in 2003 as compared to 2002. TSYS' strategic plan has identified growth strategies that are expected to enable the Company to achieve the following 2003 financial goals: 300 million cardholder accounts on file; \$1 billion in total revenues; and 20% of total revenues derived from international sources. Factors that could prevent TSYS from achieving this objective include 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, adverse developments with respect to existing and prospective clients, TSYS' inability to control expenses and uncertain economic conditions.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Consolidated Statements of Cash Flows show the Company's cash flows from operating, investing and financing activities. TSYS' primary methods for funding its operations and growth have been cash flows generated from operations and the occasional use of borrowed funds to supplement financing of capital expenditures. TSYS' net cash provided by operating activities in 2001 was \$88.4 million, compared to \$166.3 million in 2000 and \$134.5 million in 1999. The decline in 2001 in net cash provided by operating activities was the result of paying obligations that arose in 2000, specifically software commitments and cash commitments of expanding in Europe without the benefit of any processing revenues. The increase in 2000 in net cash provided was driven by the increase in net income. The major uses of cash provided by operations have been the internal development and purchase of computer software; the addition of property and equipment, primarily computer equipment; investments in contract acquisition costs

associated with obtaining and serving new clients; and the payment of cash dividends.

Capital expenditures for property and equipment were \$30.8 million in 2001, compared to \$31.8 million in 2000 and \$19.8 million in 1999. Expenditures for purchased computer software were \$36.9 million in 2001, compared to \$66.8 million in 2000 and \$42.3 million in 1999. Additions to capitalized software development costs, including enhancements to and development of TS2 processing systems, were \$19.3 million in 2001, \$12.0 million in 2000 and \$11.9 million in 1999. As a result of ceasing development on three software projects, the Company expensed \$1.2 million and \$6.1 million in 2001 and 2000, respectively, as employment and other operating expenses that were previously capitalized.

The Company's investments in contract acquisition costs were \$27.2 million in 2001, \$41.7 million in 2000 and \$15.8 million in 1999. These amounts include cash payments for processing rights, third-party development costs and other direct salary related costs incurred in connection with converting new customers to the Company's processing systems. Cash payments for processing rights were \$16.5 million, \$40.5 million and \$15.7 million in 2001, 2000 and 1999, respectively. In the fourth quarter of 1999, the Company made a payment representing a contract acquisition cost of \$10.0 million to a prospective client. Under the terms of the arrangement, the prospective client agreed to repay the \$10.0 million in the event a processing agreement was not executed by July 1, 2000. Subsequently, the prospective client announced its intention to exit the credit card business and completed the sale of its accounts in 2000. In June 2000, the parent of the prospective client repaid the \$10.0 million advance by obtaining a five-year loan from CB&T. TSYS has agreed to guarantee the loan. As of December 31, 2001, all payments on the loan have been made timely. The remaining balance at December 31, 2001, was \$7.5 million. The Company does not anticipate any negative consequences to its results of operations and financial condition as a result of this loan guarantee.

At December 31, 2001, TSYS' carrying value in its investment in TSYS de México was \$4.0 million. TSYS reflects currency translation adjustments for its Mexican joint venture as an adjustment to the Company's equity investment in TSYS de México and in accumulated other comprehensive loss. The Company had a currency translation adjustment of \$979,000 and \$312,000 related to TSYS de México in 2001 and 2000, respectively.

As part of the restructured agreement for the Mexican joint venture, TSYS de México made a capital distribution to its owners. In March 2001, TSYS received \$3.3 million from TSYS de México as its share of the capital distribution, which reduced TSYS' investment in TSYS de México.

On January 1, 1999, TSYS acquired PCS from its majority shareholder, CB&T, in exchange for 854,042 newly issued shares of TSYS common stock valued at \$20.1 million. PCS operated as a division of CB&T, providing services such as credit, collection and client service to card-issuing financial institutions, including CB&T. PCS became part of TSYS' wholly owned subsidiary, TSI. This transaction increased CB&T's ownership of TSYS to 80.8% in 1999.

In September 1999, Synovus completed the acquisition of the debt collection and bankruptcy management business offered by Wallace & de Mayo. The services provided by Wallace & de Mayo include recovery collections work, bankruptcy process management, legal account management and skip tracing. These services are being marketed under the name TSYS Total Debt Management, Inc. (TDM) through the Company and its wholly owned subsidiary, TSI, for which Synovus paid TSYS a management fee of

\$1.5 million in 2001 and \$505,000 in 2000 related to services provided to Synovus in managing TDM.

Effective January 1, 2002, TSYS acquired TDM in exchange for 2,175,000 newly issued shares of TSYS common stock with a market value of approximately \$43.5 million. TDM will now operate as a wholly owned subsidiary of TSYS. This transaction increased CB&T's ownership of TSYS to 81.1% in 2002.

In May 2000, Synovus completed the acquisition of ProCard, Inc., a provider of software and Internet tools designed to assist organizations with the management of purchasing, travel and fleet card programs. Synovus' acquisition of ProCard offers TSYS the opportunity to further expand its services to ProCard's clients. ProCard's software solutions have been integrated into TSYS' processing solutions. The Company is assisting in managing ProCard, for which the Company was paid a management fee by Synovus of \$303,000 in 2001 and \$177,000 in 2000.

In October 1999, the Company announced a plan to purchase up to 1.5 million shares of its common stock from time to time and at various prices over the next two years. During 2000, the Company purchased 130,400 shares for \$2.1 million, bringing the total amount purchased to 207,500 shares for \$3.4 million under this plan. The plan expired in October 2001.

Total dividends declared on TSYS common stock were \$11.7 million in 2001, \$9.3 million in 2000 and \$7.8 million in 1999. In February 2001, the Company increased its quarterly dividend by 20.0% to \$.015 per share from \$.0125 per share. In April 2000, the Company increased its quarterly dividend by 25.0% to \$.0125 per share from \$.01 per share.

In March 2001, the Company announced plans to move its materials management division and its printing subsidiary, Columbus Productions, Inc., into a new building in east Columbus. The 61,000 square-foot building was completed in August 2001 at a cost of approximately \$3.7 million. In conjunction with the move, CPI sold its existing location for \$960,000. While waiting on construction of the new building to be completed, CPI leased the existing facility from the new owner.

In July 2000, TSYS broke ground on a 33,000 square foot childcare facility which is located on the northeast corner of the campus. The new facility offers the Company's employees an alternative option for childcare needs. The facility was completed at a cost of approximately \$3.5 million and opened in August 2001. The Company expects to recover its building costs through future state tax credits from the state of Georgia for setting up a company-sponsored childcare facility.

In the third quarter of 2000, TSYS signed a ten-year contract with RBS. In conjunction with the requirements of its contract, TSYS paid \$37.8 million in contract acquisition costs to RBS. In anticipation of the signing of a contract, TSYS entered into a forward exchange contract in June 2000 which provided for \$20 million to be converted into British Pounds Sterling at a rate of 1.5187 any time between July 3, 2000 and September 29, 2000. In July 2000, TSYS exercised the forward exchange contract. TSYS accounted for the forward exchange contract as a hedge under Financial Accounting Standards No. 52, "Foreign Currency Translation" (SFAS 52).

In December 2000, TSYS purchased a facility in England for approximately \$13.0 million, which included building and equipment. In anticipation of the signing of a contract, TSYS entered into a forward exchange contract in October 2000 which provided for the purchase of £10 million at a rate of 1.4315 any time between November 15, 2000 and December 15, 2000. In December 2000, TSYS exercised the forward exchange contract. TSYS also accounted for the forward exchange contract as a hedge under SFAS 52.

TSYS operates internationally and is subject to potentially adverse movements in foreign currency rate changes. TSYS has not entered into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes. The Company has determined that, once it begins processing for additional European clients, it may explore potential hedging instruments to safeguard it from significant currency translation risks.

Due to the complexity of the differences between the English language and Asian languages, computer systems require two bytes to store an Asian character compared to one byte in the English language. With its entrance into the Asian card processing market, TSYS began modifying its current TS2 processing system to be able to accommodate language and currency differences with Asia, commonly referred to as the "double byte project." Management expects to spend \$10-15 million on the base program. To date, the Company has expensed approximately \$2.6 million and has capitalized \$4.0 million since reaching technological feasibility. The Company expects to complete the base program by the end of the second quarter of 2002.

The Company is developing a new commercial card system, which is built upon the architectural design of TS2. The new system will provide enhanced reporting, increased purchasing controls and flexible billing options. The Company has capitalized approximately \$7.0 million, \$9.6 million and \$10.0 million in 2001, 2000 and 1999, respectively, related to this new processing platform. The Company expects to complete the system and make it available for general use by the fourth quarter of 2002.

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 economies of scale through utilization of more efficient computer hardware and software, it can minimize the impact of inflation.

Management expects that TSYS will continue to be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future, as evidenced by TSYS' current ratio of 2.0:1. At December 31, 2001, TSYS had working capital of \$103.8 million, compared to \$63.7 million in 2000 and \$76.4 million in 1999.

Management believes that outside sources of capital will be available to finance expansion projects and possible acquisitions should the Company decide to pursue such financing. The form of any such financing will vary depending upon prevailing market and other conditions and may include short-term and/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.

Off-Balance Sheet Arrangements and Contractual Cash Obligations

TSYS uses various operating leases in its normal course of business. The "off-balance sheet" arrangements obligate TSYS under noncancelable operating leases for computer equipment, software and facilities, including the Company's corporate campus. These computer and software lease commitments may also be replaced with new lease commitments due to new technology. Management expects that, as these leases expire, they will be renewed or replaced by similar leases.

In 1997, the Company entered into an operating lease agreement with a special purpose entity (SPE) for the Company's corporate campus. The business purpose of the SPE was to provide a means of financing the

Company's corporate campus. The assets and liabilities of the SPE consists solely of the cost of the building and the loans from a consortium of banks. The cost of the building and the outstanding principal balance of the debt resident within the financial statements of the SPE both approximate \$93.5 million. The lease, which is guaranteed by Synovus, provides for substantial residual value guarantees. The amount of the residual value guarantees relative to the assets under this lease is approximately \$81.4 million. Due to the nature of the lease, no asset or obligation is recorded on the Company's consolidated balance sheets.

The terms of this lease financing arrangement require, among other things, that the Company maintain certain minimum financial ratios and provide certain information to the lessor. TSYS is also subject to interest rate risk associated with the lease on its campus facilities. The payments under the operating lease arrangement, which can be locked in for six month intervals, are tied to the floating London Interbank Offered Rate (LIBOR). In the event that LIBOR rates increase, operating expenses could increase proportionately.

The campus lease expires November 2002. The Company has the option to either renew the lease subject to prevailing market rates or purchase the property at the original cost of the property. The Company is currently evaluating which option to pursue. As a result, the Company will have a future cash obligation with respect to the corporate campus beyond the lease expiration of November 2002.

The following table summarizes future lease payments under noncancelable operating leases as of December 31, 2001, for the next five years and thereafter:

Contractual Cash Obligations	Payments Due By Period				
	Total	1 Year or Less	2-3 Years	4-5 Years	After 5 Years
<i>(dollars in millions)</i>					
Operating Leases	\$276.1	\$110.1	117.6	41.2	7.2
Campus Lease	2.1	2.1	—	—	—
Total Contractual Cash Obligations	\$278.2	\$112.2	117.6	41.2	7.2

Euro Conversion Readiness Disclosure

The Company converted the account portfolios of RBS and AIB in 2001. The United Kingdom is not a "participating country" with respect to January 1, 1999, "Euro" currency conversion, and it currently is not known when or if the United Kingdom will elect to convert to the Euro. However, Ireland is a participating country. As of October 2000, TSYS' TS2 processing system is capable of processing Euro-denominated transactions. TSYS' costs in connection with the Euro conversion were not material. The European Union officially converted to the Euro currency on January 1, 2002. TSYS has not experienced any difficulties in processing Euro-denominated transactions.

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 other things, statements regarding the expected impact on TSYS of recent accounting pronouncements; TSYS' expected expansion of its position in the consumer card, retail card and commercial card arenas; TSYS' expected recoupment of building costs through future state tax credits; TSYS' expected growth in net income for 2002 over 2001; TSYS' expected increase in net income for 2003; TSYS' expected expenditures on and time frame for completing its double byte project or other development projects; the anticipated impact on TSYS of its loan guarantee on behalf of an affiliate of a former prospective client; TSYS' belief with respect to its ability to meet its contractual commitments and the assumptions underlying such statements, including, with respect to TSYS' expected increase in net income for 2002 and 2003; TSYS' expected internal growth rate for existing portfolios; an aggressive focus on expense control and productivity improvement; the successful implementation and market acceptance of new product offerings; expected increases in the number of accounts on file; expected increases in revenues; and expected increases in revenues attributable to international clients. In addition, certain statements in future filings by TSYS with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of TSYS which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of TSYS or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. A number of important factors could cause actual results to differ materially from those contemplated by the forward-looking statements in this filing. Many of these factors are beyond TSYS' ability to control or predict. The factors include, but are not limited to: (i) lower than anticipated internal growth rates for TSYS' existing customers; (ii) TSYS' inability to control expenses and increase market share; (iii) TSYS' inability to successfully bring new products to market, including, but not limited to stored value and e-commerce products; (iv) the inability of TSYS to grow its business through acquisitions or successfully integrate acquisitions; (v) TSYS' inability to increase the revenues derived from international sources; (vi) adverse developments with respect to entering into contracts with new clients and retaining current clients; (vii) 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; (viii) TSYS' inability to anticipate and respond to technological changes, particularly with respect to e-commerce; (ix) adverse developments with respect to the successful conversion of clients; (x) the absence of significant changes in foreign exchange spreads between the United States and the countries TSYS transacts business in, to include Mexico, United Kingdom, Japan,

Canada and the European Union; (xi) changes in consumer spending, borrowing and saving habits, including a shift from credit to debit cards; (xii) changes in laws, regulations, credit card association rules or other industry standards affecting TSYS' business which require significant product redevelopment efforts; (xiii) the effect of changes in accounting policies and practices as may be adopted by the Financial Accounting Standards Board or the Securities and Exchange Commission; (xiv) the costs and effects of litigation; (xv) adverse developments with respect to the credit card industry in general; (xvi) TSYS' inability to successfully manage any impact from slowing economic conditions or consumer spending; (xvii) the occurrence of catastrophic events that would impact TSYS' or its major customers' operating facilities, communications systems and technology, or that has a material negative impact on current economic conditions or levels; (xviii) successfully managing the potential both for patent protection and patent liability in the context of rapidly developing legal framework for expansive software patent protection; (xix) decreases in card activity; and (xx) overall market conditions.

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

LEGAL PROCEEDINGS

On November 10, 1998, a class action complaint was filed against NationsBank of Delaware, N.A., in the United States District Court for the Southern District of Mississippi. On March 23, 1999, the named plaintiff amended the complaint and named the Company and certain credit bureaus as defendants in the case. The named plaintiff alleged, among other things, that the defendants failed to report properly the credit standing of each member of the putative class. The named plaintiff defined the class as all persons and entities within the United States who obtained credit cards from NationsBank and whose accounts were purchased by or transferred to U.S. BankCard and whose accounts were reported to credit bureaus or credit agencies incorrectly in August 1998. The parties have reached a settlement of the litigation. On September 21, 2001, the Magistrate Judge for the United States District Court for the Southern District of Mississippi issued an order of final approval of that settlement pursuant to Rule 23(e) of the Federal Rules of Civil Procedure. Payments to settle the litigation were substantially covered by insurance.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	2000
Assets		
Current assets:		
Cash and cash equivalents (includes \$45.9 million and \$74.6 million on deposit with a related party at 2001 and 2000, respectively)	\$ 55,961,088	80,071,895
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of \$5.4 million and \$5.8 million at 2001 and 2000, respectively	113,318,623	97,522,227
Prepaid expenses and other current assets (Note 10)	37,074,206	30,192,248
Total current assets	206,353,917	207,786,370
Property and equipment, net (Note 3)	120,799,905	110,971,777
Computer software, net (Note 4)	170,889,575	145,454,042
Deferred income tax assets (Note 7)	8,492,257	11,104,254
Other assets (Notes 5 and 10)	145,741,354	125,907,383
Total assets	\$ 652,277,008	601,223,826
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 24,129,727	43,935,426
Accrued salaries and employee benefits	39,687,428	45,202,518
Other current liabilities (includes \$2.4 million and \$2.0 million payable to related parties at 2001 and 2000, respectively) (Note 10)	38,735,928	54,993,790
Total current liabilities	102,553,083	144,131,734
Other liabilities	—	10,652,600
Deferred income tax liabilities (Note 7)	46,553,661	34,841,622
Total liabilities	149,106,744	189,625,956
Minority interest in consolidated subsidiary	2,358,578	2,583,682
Shareholders' equity (Notes 2 and 6):		
Common stock — \$0.10 par value. Authorized 300,000,000 shares; 195,079,087 issued at 2001 and at 2000; 194,778,670 and 194,738,870 outstanding at 2001 and 2000, respectively	19,507,909	19,507,909
Additional paid-in capital	9,360,223	6,998,100
Accumulated other comprehensive loss	(3,455,338)	(1,613,681)
Treasury stock	(3,533,325)	(3,594,683)
Retained earnings	478,932,217	387,716,543
Total shareholders' equity	500,811,686	409,014,188
Commitments and contingencies (Note 9)		
Total liabilities and shareholders' equity	\$ 652,277,008	601,223,826

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2001	2000	1999
Revenues:			
Bankcard data processing services (includes \$44.9 million, \$47.3 million and \$37.1 million from related parties for the years ended December 31, 2001, 2000 and 1999, respectively)	\$ 563,572,318	505,934,776	456,839,589
Other services (includes \$6.5 million, \$6.6 million and \$5.5 million from related parties for the years ended December 31, 2001, 2000 and 1999, respectively)	86,835,332	95,357,966	77,086,422
Total revenues (Notes 2 and 11)	650,407,650	601,292,742	533,926,011
Expenses:			
Salaries and other personnel expense	258,119,227	235,670,223	207,618,319
Net occupancy and equipment expense	169,534,960	162,905,729	151,964,229
Other operating expenses (includes \$8.9 million, \$11.2 million and \$13.1 million, net to related parties for the years ended December 31, 2001, 2000 and 1999, respectively)	87,421,298	90,111,097	86,051,059
Total operating expenses (Note 2)	515,075,485	488,687,049	445,633,607
Equity in income of joint ventures (Note 5)	17,824,455	15,586,309	12,326,609
Operating income	153,156,620	128,192,002	100,619,013
Nonoperating income (expense):			
Gain (loss) on disposal of property and equipment, net	(89,867)	(1,421,955)	797,916
Interest income, net of interest expense (includes \$2.3 million, \$4.8 million and \$1.9 million from a related party for the years ended December 31, 2001, 2000 and 1999, respectively)	2,680,772	5,036,645	2,159,074
Minority interest in subsidiary's net income	(76,003)	(98,750)	—
Other, net	121,967	—	—
Total nonoperating income (Note 2)	2,636,869	3,515,940	2,956,990
Income before income taxes	155,793,489	131,707,942	103,576,003
Income taxes (Note 7)	52,891,460	46,064,561	34,983,027
Net income	\$ 102,902,029	85,643,381	68,592,976
Basic earnings per share	\$.53	.44	.35
Diluted earnings per share	\$.53	.44	.35
Weighted average common shares outstanding	194,772,766	194,784,981	194,912,983
Increase due to assumed issuance of shares related to stock options outstanding	831,696	480,371	565,610
Weighted average common and common equivalent shares outstanding	195,604,462	195,265,352	195,478,593

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2001	2000	1999
<i>Cash flows from operating activities:</i>			
Net income	\$ 102,902,029	85,643,381	68,592,976
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in subsidiary's net income	76,003	98,750	—
Equity in income of joint ventures	(17,824,455)	(15,586,309)	(12,326,609)
Depreciation and amortization	57,395,583	51,600,551	50,182,601
Provision for doubtful accounts and billing adjustments	485,337	1,594,342	2,665,500
Provision for transaction processing accruals	1,438,241	5,726,889	6,910,080
Deferred income tax expense	14,324,036	4,101,488	542,398
(Gain) loss on disposal of property and equipment, net	89,867	1,421,955	(797,916)
(Increase) decrease in:			
Accounts receivable	(16,281,733)	(1,499,484)	(15,471,271)
Prepaid expenses and other assets	(3,010,347)	(13,496,376)	(1,953,576)
Increase (decrease) in:			
Accounts payable and other liabilities	(30,458,299)	38,849,371	7,864,956
Accrued salaries and employee benefits	(5,515,090)	8,781,280	11,777,789
Other current liabilities	(15,252,456)	(930,983)	16,540,427
Net cash provided by operating activities	88,368,716	166,304,855	134,527,355
<i>Cash flows from investing activities:</i>			
Purchase of property and equipment	(30,807,717)	(31,785,383)	(19,772,202)
Additions to computer software	(55,037,556)	(72,685,206)	(54,188,928)
Proceeds from disposal of property and equipment	1,084,219	79,473	4,540,483
Cash acquired in acquisition	—	623,364	—
Dividends received from joint ventures	10,410,281	5,369,192	5,104,905
Repayment of contract acquisition costs	—	10,000,000	—
Increase in contract acquisition costs	(27,194,200)	(41,713,092)	(15,812,318)
Net cash used in investing activities	(101,544,973)	(130,111,652)	(80,128,060)
<i>Cash flows from financing activities:</i>			
Repurchase of common stock	—	(2,077,301)	(1,290,748)
Principal payments on long-term debt and capital lease obligations	—	(204,286)	(70,619)
Dividends paid on common stock	(11,198,915)	(8,766,916)	(7,787,981)
Proceeds from exercise of stock options	264,365	24,088	97,400
Net cash used in financing activities	(10,934,550)	(11,024,415)	(9,051,948)
Net increase (decrease) in cash and cash equivalents	(24,110,807)	25,168,788	45,347,347
Cash and cash equivalents at beginning of year	80,071,895	54,903,107	9,555,760
Cash and cash equivalents at end of year	\$ 55,961,088	80,071,895	54,903,107
Cash paid for interest	\$ 31,336	54,051	23,934
Cash paid for income taxes (net of refunds received)	\$ 49,318,149	42,708,816	24,647,585

Significant noncash transaction: In 1999, the Company acquired Partnership Card Services through the issuance of 854,042 shares of common stock with a market value of \$20,070,000 (Note 2).

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Years Ended December 31, 2001, 2000 and 1999						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Shareholders' Equity
	Shares	Amount					
At December 31, 1998	194,225,045	\$19,422,504	1,882,814	(1,179,337)	(300,788)	250,528,526	\$270,353,719
Comprehensive income:							
Net income	—	—	—	—	—	68,592,976	68,592,976
Other comprehensive loss, net of tax:							
Foreign currency translation adjustments	—	—	—	(274,371)	—	—	(274,371)
Other comprehensive loss	—	—	—	—	—	—	(274,371)
Comprehensive income	—	—	—	—	—	—	68,318,605
Common stock issued in an acquisition (Note 2)	854,042	85,405	3,342,220	—	—	—	3,427,625
Common stock issued from treasury shares for exercise of stock options (Note 6)	—	—	79,903	—	62,360	—	142,263
Purchase of treasury shares	—	—	—	—	(1,290,748)	—	(1,290,748)
Cash dividends declared (\$.040 per share)	—	—	—	—	—	(7,796,771)	(7,796,771)
Tax benefit associated with stock awards and options	—	—	1,137,363	—	—	—	1,137,363
At December 31, 1999	195,079,087	19,507,909	6,442,300	(1,453,708)	(1,529,176)	311,324,731	334,292,056
Comprehensive income:							
Net income	—	—	—	—	—	85,643,381	85,643,381
Other comprehensive loss, net of tax:							
Foreign currency translation adjustments	—	—	—	(159,973)	—	—	(159,973)
Other comprehensive loss	—	—	—	—	—	—	(159,973)
Comprehensive income	—	—	—	—	—	—	85,483,408
Common stock issued from treasury shares for exercise of stock options (Note 6)	—	—	15,300	—	11,794	—	27,094
Purchase of treasury shares	—	—	—	—	(2,077,301)	—	(2,077,301)
Cash dividends declared (\$.048 per share)	—	—	—	—	—	(9,251,569)	(9,251,569)
Tax benefit associated with stock awards and options	—	—	540,500	—	—	—	540,500
At December 31, 2000	195,079,087	19,507,909	6,998,100	(1,613,681)	(3,594,683)	387,716,543	409,014,188
Comprehensive income:							
Net income	—	—	—	—	—	102,902,029	102,902,029
Other comprehensive loss, net of tax:							
Foreign currency translation adjustments	—	—	—	(1,841,657)	—	—	(1,841,657)
Other comprehensive loss	—	—	—	—	—	—	(1,841,657)
Comprehensive income	—	—	—	—	—	—	101,060,372
Common stock issued from treasury shares for exercise of stock options (Note 6)	—	—	243,167	—	61,358	—	304,525
Cash dividends declared (\$.060 per share)	—	—	—	—	—	(11,686,355)	(11,686,355)
Tax benefit associated with stock awards and options	—	—	2,118,956	—	—	—	2,118,956
At December 31, 2001	195,079,087	\$19,507,909	9,360,223	(3,455,338)	(3,533,325)	478,932,217	\$500,811,686

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 Basis of Presentation and Summary of Significant Accounting Policies

BUSINESS: As of January 1, 2002, Total System Services, Inc. (TSYS or the Company) is an 81.1% owned subsidiary of Columbus Bank and Trust Company (CB&T) which is a wholly owned subsidiary of Synovus Financial Corp. (Synovus). Synovus' stock is traded on the NYSE under the symbol "SNV." TSYS provides bankcard data processing and related services to banks and other card-issuing institutions throughout the United States, Mexico, Canada, Honduras, the Caribbean and Europe. The Company currently offers merchant services to financial institutions and other organizations in Japan.

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION: The accompanying consolidated financial statements of Total System Services, Inc. include the accounts of TSYS and its wholly owned subsidiaries, Columbus Depot Equipment Company, TSYS Total Solutions, Inc. (TSI), Columbus Productions, Inc., TSYS Canada, Inc. and DotsConnect, Inc., as well as its majority owned foreign subsidiary, GP Network Corporation (GP Net). Significant intercompany accounts and transactions have been eliminated in consolidation. The Company's future results of operations involve a number of substantial risks and uncertainties.

RISKS AND UNCERTAINTIES AND USE OF ESTIMATES: 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 can differ from assumed and estimated amounts.

Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations includes, but are not limited to, lower than anticipated growth from existing customers, an inability to attract new customers and grow internationally, an inability to grow through acquisitions or successfully integrate acquisitions, technology changes, financial services consolidations increased regulatory mandates, a decline in the use of credit cards as a payment mechanism, or a decline in the financial stability the Company's customers.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

INVESTMENTS IN JOINT VENTURES: TSYS' 49% investment in Total System Services de México, S.A. de C.V. (TSYS de México), a bankcard data processing support operation located in Mexico, is accounted for using the equity method of accounting, as is TSYS' 50% investment in Vital Processing Services L.L.C. (Vital), a merchant processing operation headquartered in Tempe, Arizona. Investments in joint ventures are recognized in other noncurrent assets.

PROPERTY AND EQUIPMENT: Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over 5-40 years, computer equipment over 2-4 years, and furniture and other equipment over 3-15 years. The company evaluates impairment losses on long-lived assets used in operations in accordance with Statement of Financial Accounting Standards (SFAS) 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," considering whether events and circumstances indicate that assets may be impaired.

SOFTWARE DEVELOPMENT COSTS: The Company develops software that is used in providing processing services to clients. Software development costs are capitalized once technological feasibility of the software has been established.

Software development costs are amortized using the greater of (1) the straight-line method over the estimated useful life (which ranges from 3-10 years) or (2) the ratio of current revenues to current anticipated revenues. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed all planning, designing, coding and testing activities that are necessary to determine that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available for general use. The Company evaluates the unamortized capitalized costs of software development as compared to the net realizable value of the development which is determined by projected future cash flows. The amount by which the unamortized capitalized costs exceed the net realizable value are written off. Software development costs are recognized in computer software, net.

ACCOUNTS RECEIVABLE: Accounts receivable balances are stated net of allowances for doubtful accounts and billing adjustments of \$5.4 million and \$5.8 million at December 31, 2001 and 2000, respectively. The allowance represents 4.5% and 5.7% of accounts receivable at 2001 and 2000, respectively. TSYS' client base mainly consists of financial institutions and other card issuers such as major retailers. Historically, the Company has not encountered any significant write-offs.

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

Increases in the allowance for doubtful accounts are recorded as bad debt expense and are reflected in other operating expenses in the Company's consolidated statements of income.

TSYS records provisions for billing adjustments for potential billing discrepancies. When estimating the provision for billing adjustments, the Company considers prior history of billing adjustments. Increases in the provision for billing adjustments are recorded net of revenues in the Company's consolidated statements of income.

REVENUE RECOGNITION: The Company's bankcard data processing revenues are derived from long-term processing contracts with banks and other institutions and are recognized as revenues at the time the service is performed. Bankcard data processing revenues are generated primarily from charges based on the number of accounts billed, transactions and authorizations processed, statements mailed, and other processing services for cardholder accounts on file. Most of these contracts have prescribed minimums. The terms of contracts generally range from three to ten years in length.

The Company's other services revenues are derived from printing activities and customer relationship management services, such as call center activities for card activation and balance transfer requests. The contract terms for these services are generally shorter in nature, and some are project based. Revenue is recognized on these other services either on a per unit or a fixed price basis. The Company uses percentage of completion method of accounting for its fixed price contracts.

CONTRACT ACQUISITION COSTS: The Company capitalizes contract acquisition costs related to signing or renewing long-term contracts. These costs, primarily consisting of cash payments for rights to provide processing services and internal conversion and software development costs, are amortized using the straight-line method over the contract term beginning when the client's cardholder accounts are converted to the system. All costs incurred prior to contract execution are expensed as incurred.

The amortization of these costs is recognized in other operating expenses.

The Company evaluates the carrying value of contract acquisition costs for impairment on the basis of whether these costs are fully recoverable from expected undiscounted net operating cash flows of the related contract. Capitalized contract acquisition costs are recognized in prepaid and other assets.

TRANSACTION PROCESSING PROVISIONS: The Company has made certain estimates to accrue for contract contingencies and processing errors. When providing for these accruals, the Company takes into consideration such factors as the prior history of contract penalties and processing errors incurred, contractual penalties inherent in the Company's contracts, progress towards meeting milestones and amounts not covered by insurance.

These accruals are recorded in other current liabilities in the Company's consolidated balance sheets. Increases and decreases in the transaction processing provisions are reflected in other operating expenses in the Company's consolidated statements of income.

GOODWILL: Goodwill results from the excess of cost over the fair value of net assets of businesses acquired and is amortized using the straight-line method over periods of five to 15 years. The Company reviews goodwill for impairment on the basis of whether the goodwill is fully recoverable from expected undiscounted net operating cash flows of the related business units. If such review indicates impairment, the Company uses fair value in determining the amount that should be written off. Goodwill is included in other assets.

INCOME TAXES: Income taxes reflected in TSYS' consolidated financial statements are computed based on the taxable income of TSYS as if TSYS were a stand-alone tax paying entity. A consolidated federal income tax return is filed for Synovus and its majority owned subsidiaries, including TSYS.

The Company accounts for income taxes in accordance with the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

CASH EQUIVALENTS: For purposes of the statements of cash flows, investments with a maturity of three months or less when purchased are considered to be cash equivalents.

EARNINGS PER SHARE: Basic earnings per share (EPS) is calculated as income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated to reflect the potential dilution that would occur if stock options or other contracts to issue common stock were exercised and resulted in additional common stock that would share in the earnings of the Company.

FAIR VALUES OF FINANCIAL INSTRUMENTS: The Company uses financial instruments in the normal course of its business. The carrying values of cash equivalents, accounts receivable, accounts payable, accrued salaries and employee benefits, and other current liabilities approximate their fair value due to the short-term maturities of these assets and liabilities.

The investments in joint ventures are accounted for by the equity method and pertain to privately held companies for which a fair value is not readily available. The Company believes the fair values of its investments in joint ventures exceed their respective carrying values.

TREASURY STOCK: The Company uses the cost method when it purchases its own common stock as treasury shares or issue treasury stock upon option exercises and displays treasury stock as a reduction of shareholders' equity.

STOCK BASED COMPENSATION: The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion (APB) 25, "Accounting for Stock Issued to Employees." Under APB 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 Company's common stock on the grant date.

FOREIGN CURRENCY TRANSLATION: The Company maintains several different foreign operations. Foreign currency financial statements of the Company's Mexican joint venture, the Company's wholly owned subsidiary with an operation in Canada, the Company's majority owned foreign subsidiary, GP Net, as well as the Company's branches in Japan and the United Kingdom, 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 gains or losses resulting from the currency translation of assets and liabilities of the Company's foreign operations, net of tax, are accumulated in a separate section of shareholders' equity titled accumulated other comprehensive loss.

COMPREHENSIVE INCOME: Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," requires companies to display, with the same prominence as other financial statements, the components of comprehensive income. TSYS displays the items of other comprehensive income in its consolidated statements of shareholders' equity and comprehensive income.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 (SFAS 138), "Accounting for Certain Derivative Instruments and Hedging Activities, an amendment of SFAS 133." SFAS 133 and SFAS 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS 133 and SFAS 138 are effective for all fiscal quarters of all fiscal years beginning after June 30, 2000; the Company adopted SFAS 133 and SFAS 138 on January 1, 2001.

The Company did not have any outstanding derivative instruments or hedging transactions at December 31, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS: At the November 2001 Emerging Issues Task Force (EITF) meeting, the FASB released Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." The FASB Staff Announcement clarified interpretations of EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," stating that the Staff believes that reimbursements received for out-of-pocket expenses should be characterized as revenue. Historically, TSYS has not reflected such reimbursements in its consolidated statements of income. The largest reimbursement expenses for which TSYS is reimbursed by clients, are postage and express courier charges.

The FASB Staff Announcement will be applied in financial reporting periods beginning after December 15, 2001. Upon application of this FASB Staff Announcement, comparative financial statements for prior periods will be reclassified to provide consistent presentation.

RECLASSIFICATIONS: Certain reclassifications have been made to the 2000 and 1999 financial statements to conform to the presentation adopted in 2001.

NOTE 2 Relationships with Affiliated Companies

At December 31, 2001, CB&T owned 157,455,980 shares (80.8%) of TSYS common stock. On January 1, 2002, CB&T's ownership increased to 81.1% (see Note 13).

TSYS has entered into agreements with CB&T and certain of its affiliates pursuant to which TSYS performs bankcard data processing services. Such bankcard data processing service revenues were \$12,893,460, \$12,281,914 and \$8,049,915 during the years ended December 31, 2001, 2000 and 1999,

respectively. Miscellaneous data processing services performed by TSYS for certain Synovus nonbanking affiliates generated revenues of \$480,285, \$256,126 and \$221,844 during the years ended December 31, 2001, 2000 and 1999, respectively; these revenues are included in bankcard data processing services. Bankcard data processing revenues related to TSYS de México were \$15,934,797, \$15,710,029 and \$15,954,155 for the years ended December 31, 2001, 2000 and 1999, respectively. Merchant processing revenues, included in bankcard data processing revenues and related to Vital were \$15,068,775, \$14,109,721 and \$12,898,723 for the years ended December 31, 2001, 2000 and 1999, respectively.

During 2001 and 2000, TSYS provided web hosting and electronic commerce processing services to CB&T for which the Company was paid \$470,424 and \$545,507, respectively.

Revenues from other services provided by TSYS to Synovus and its affiliates were \$6,417,650, \$6,593,783 and \$5,483,784 during the years ended December 31, 2001, 2000 and 1999, respectively.

During 2000 and 1999, Synovus Technologies, Inc. (STI) paid TSYS \$143,222 and \$168,305, respectively, for data links, network services, computer processing services and other miscellaneous items.

In January 2001, STI's operations were folded into Synovus. Synovus paid TSYS \$105,925 for data links, network services, computer processing services and other miscellaneous items.

TSYS leased a portion of its facilities from CB&T, and leases portions of the buildings it owns to CB&T. Lease payments made to CB&T amounted to \$36,308 in 1999. Lease payments received from CB&T amounted to \$39,405 in 2001 and 2000, and \$9,851 in 1999. TSYS also leased furnishings from Synovus Leasing Co. for \$211,878 in 2001 and \$20,807 in 2000.

Synovus Trust Company (STC) serves as trustee of various employee benefit plans of TSYS. During 2001, 2000 and 1999, STC trustee's fees paid by TSYS were \$558,303, \$391,414 and \$317,081, respectively.

TSYS has entered into a management agreement with Synovus pursuant to which TSYS pays for management, legal and tax services provided by Synovus. Such management fees amounted to \$1,026,984 in 2001, \$1,703,840 in 2000 and \$1,524,780 in 1999.

Synovus has entered into a management agreement with TSYS pursuant to which Synovus pays for management services provided to TSYS Total Debt Management and ProCard by TSYS. Such management fees amounted to \$1,800,000 in 2001 and \$681,511 in 2000.

TSYS maintained an agreement with Synovus Service Corp. (SSC) in 2000 and 1999 for SSC to provide human resource, payroll, security, maintenance and other administrative services to TSYS and its subsidiaries. TSYS paid SSC \$8,070,260 and \$10,639,179 for these services in 2000 and 1999, respectively. TSYS received \$197,597 in 2000 and \$51,594 in 1999 in rent from SSC. TSYS also received \$63,806 and \$382,840 in 2000 and 1999, respectively, for data processing services provided to SSC.

In January 2001, SSC's operations were folded into Synovus. TSYS paid \$7,542,294 to Synovus for providing human resource, payroll, security, maintenance and other administrative services to TSYS and its subsidiaries in 2001. TSYS received \$454,926 in 2001 in rent from Synovus. TSYS also received \$24,900 in 2001 for data processing services provided to Synovus.

Beginning in 2001 and as a result of the restructuring of its joint venture agreement, TSYS agreed to pay TSYS de México a management fee for certain client relationship services that TSYS de México has assumed from TSYS. TSYS paid TSYS de México a management fee of \$300,587 in 2001.

Effective January 1, 1999, TSYS acquired Partnership Card Services (PCS) from its majority shareholder, CB&T in exchange for 854,042 newly issued shares of TSYS common stock with a market value of approximately \$20.1 million. Prior to the acquisition by TSYS, PCS operated as a division of CB&T, providing services such as credit, collection and client service to card-issuing financial institutions, including CB&T. The business of PCS became part of TSYS' wholly owned subsidiary, TSI.

Due to the addition of PCS, TSYS paid CB&T \$345,893 in 1999 for marketing rights. TSYS also paid STI \$1,688,676 and \$765,741 in 2000 and 1999, respectively, for fees associated with PCS' lockbox services. TSYS also paid Synovus \$100,697 in 2001 for fees associated with lockbox services.

Effective January 1, 2002, TSYS acquired TSYS Total Debt Management,

Inc. (TDM) from its majority shareholder, CB&T, in exchange for 2,175,000 newly issued shares of TSYS common stock with a market value of approximately \$43.5 million. Prior to the acquisition, TDM operated as a wholly owned subsidiary of Synovus, providing third-party collection services. TDM will operate as a separate wholly owned subsidiary of TSYS.

TSYS maintains deposit accounts with CB&T, the majority of which earn interest and on which TSYS receives market rates of interest. Included in cash and cash equivalents are deposit balances with CB&T of \$45.9 million and \$74.6 million at December 31, 2001 and 2000, respectively.

In 2001, 2000 and 1999, TSYS received interest income of \$2,305,617, \$4,772,461 and \$1,865,621, respectively, from CB&T. TSYS paid banking account service fees and wire transfer fees to CB&T of \$46,396 in 2001, \$68,004 in 2000 and \$53,195 in 1999.

TSYS maintains an unsecured credit agreement with CB&T. The credit agreement has a maximum available principal balance of \$5.0 million, with interest at prime. TSYS did not use the credit facility during 2001 or 2000.

TSYS paid cash dividends to CB&T in the amount of approximately \$9.0 million, \$7.1 million and \$6.3 million in 2001, 2000 and 1999, respectively. TSYS received cash dividends from its equity joint ventures of approximately \$7.1 million, \$5.4 million and \$5.1 million in 2001, 2000 and 1999, respectively. As part of the restructured joint venture agreement in 2001, TSYS received a capital distribution of approximately \$3.3 million from TSYS de México.

Certain officers of TSYS and other TSYS employees participate in the Synovus Incentive Plans. Nonqualified options to acquire Synovus common stock were granted in 2001, 2000 and 1999 as follows:

	Number of shares		
	2001	2000	1999
Stock options	3,062,523	324,122	1,001,933

The stock options were granted with an exercise price equal to the fair market value of Synovus common stock at the date of grant. The options vest over two to three years and expire eight to ten years from date of grant.

In 2001, Synovus has granted performance-accelerated stock options to certain key TSYS executives. The exercise price per share is equal to the fair market value at the date of grant. The options are exercisable in equal installments when the market price of Synovus common stock exceeds \$40, \$45 and \$50. However, all options may be exercised after seven years from the grant date.

The Company believes the terms and conditions of the transactions described above between TSYS, CB&T, Synovus and other affiliated companies are comparable to those which could have been obtained in transactions with unaffiliated parties. No changes have been made to the method of establishing terms with the affiliated companies in the current year.

NOTE 3 Property and Equipment

Property and equipment balances at December 31 are as follows:

	2001	2000
Land	\$ 6,748,039	6,092,433
Buildings and improvements	90,500,757	80,344,434
Computer equipment	73,390,762	65,840,658
Furniture and other equipment	57,731,151	52,013,579
Construction in progress	1,695,087	1,488,817
	230,065,796	205,779,921
Less accumulated depreciation and amortization	109,265,891	94,808,144
Property and equipment, net	\$ 120,799,905	110,971,777

Depreciation and amortization expense related to property and equipment was \$19,521,866, \$16,553,156 and \$15,637,169 for the years ended December 31, 2001, 2000 and 1999, respectively.

NOTE 4 Computer Software

Computer software at December 31 is summarized as follows:

	2001	2000
Purchased computer software	\$ 199,021,424	177,629,217
TS2	33,048,872	33,048,872
Other capitalized software		
development costs	50,616,478	32,467,800
	282,686,774	243,145,889
Less accumulated amortization	111,797,199	97,691,847
Computer software, net	\$ 170,889,575	145,454,042

Amortization expense related to purchased computer software costs was \$24,803,900, \$20,604,861 and \$16,153,985 for the years ended December 31, 2001, 2000 and 1999, respectively. Amortization of TS2 and other capitalized software development costs was \$4,817,586, \$5,101,047 and \$5,472,776 for the years ended December 31, 2001, 2000 and 1999, respectively.

During 2001, the Company ceased developing a software project. The project was reevaluated to determine its utilization in a new customer service platform. The Company expensed \$1.2 million of costs of this project in employment and other operating expenses that were originally capitalized on this project.

During 2000, the Company ceased development of two software projects. The projects were reevaluated to determine their utilization in a new design plan. Based on its review, the Company expensed \$6.1 million of costs as employment and other operating expenses that were originally capitalized on those projects.

NOTE 5 Investments in Joint Ventures

TSYS holds a 50% equity interest in Vital, a joint venture with Visa U.S.A., which combines the front-end authorization and back-end accounting and settlement processing for merchants. The condensed financial information for this joint venture as of December 31, 2001 and 2000, and for the years ended December 31, 2001, 2000 and 1999, is summarized as follows:

	2001	2000
Balance Sheet Data:		
<i>(in thousands)</i>		
Current assets	\$ 85,153	72,038
Total assets	130,285	110,237
Current liabilities	34,029	33,864
Total liabilities	36,048	37,008
Members' capital	94,237	71,935

	2001	2000	1999
Statement of Income Data:			
<i>(in thousands)</i>			
Revenues	\$ 218,635	180,242	151,245
Operating income	31,279	23,438	18,690
Net income*	32,302	25,655	20,065

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

Vital is an limited liability company with 100 million units of ownership. In 2000, the Vital Board of Directors approved a plan to allow its owners to set aside 2,000,000 units held by the owners to make awards to key management of Visa and TSYS. In 2000, TSYS awarded six of its key executives an aggregate of 800,000 Vital restricted stock units for their role in the development, growth and success of Vital. These units are similar to restricted stock with a three-year vesting

schedule. During the three years, there will be no voting rights or dividend distributions related to these restricted units. The vesting of these units accelerates upon a change of control or an initial public offering of Vital. The Company recognized \$467,976 and \$766,919 as compensation expense in 2001 and 2000, respectively, related to the Vital unit awards.

A reconciliation of equity in income of joint ventures is as follows:

(millions of dollars)	2001	2000	1999
Vital	\$ 16.0	13.2	10.1
Other	1.8	2.4	2.2
Total equity in income			
of joint ventures	\$ 17.8	15.6	12.3

The Company estimates its share of equity in income of Vital and adjusts those estimates based upon the final results of Vital.

NOTE 6 Shareholders' Equity

TREASURY STOCK: In October 1999, the Company announced a plan to purchase up to 1.5 million shares of its common stock from time to time and at various prices over the ensuing two years. During the year ended December 31, 2000, the Company purchased 130,400 shares for \$2.1 million. During the year ended December 31, 1999, the Company purchased 77,100 shares for \$1.3 million.

The following table summarizes shares held as treasury stock and treasury stock costs:

	Number of Treasury Shares	Treasury Shares Cost
December 31, 2001	300,417	\$3,533,325
December 31, 2000	340,217	3,594,683
December 31, 1999	217,467	1,529,176

During 2001, 2000 and 1999, certain employees of the Company exercised options for 39,800, 7,650 and 41,100 shares of common stock, respectively, that were issued from treasury shares.

LONG-TERM INCENTIVE PLANS—TSYS: Total System Services, Inc. maintains a Long-Term Incentive Plan (LTI Plan) to attract, retain, motivate and reward employees who make a significant contribution to the Company's long-term success and to enable such employees to acquire and maintain an equity interest in the Company. The LTI Plan is administered by the Compensation Committee of the Company's Board of Directors and enables the Company to grant stock options, stock appreciation rights, restricted stock and performance awards; 3.2 million shares of common stock were reserved for distribution under the LTI Plan. Options granted under the LTI Plan may be incentive stock options or nonqualified stock options as determined by the Committee at the time of grant. Incentive stock options are granted at a price not less than 100% of the fair market value of the stock on the grant date, and nonqualified options are granted at a price to be determined by the Committee. Option vesting terms are established by the Committee at the time of grant and presently range from one to five years. The expiration date of options granted under the LTI Plan is determined at the time of grant and may not exceed ten years from the date of the grant. At December 31, 2001, there were options outstanding under the LTI Plan to purchase 1,567,500 shares of the Company's common stock, of which 683,800 shares were exercisable. There were no shares available for grant at December 31, 2001, under the LTI Plan.

Additionally, options (not issued under the LTI Plan) to purchase 77,050 shares of the Company's common stock were outstanding at December 31, 2001, of which 37,500 were exercisable.

A summary of the Company's stock option activity as of December 31, 2001, 2000 and 1999, and changes during the years ended on those dates is presented below:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options:						
Outstanding at beginning of year	1,684,350	\$ 12.55	1,637,000	\$ 12.41	1,678,100	\$ 12.15
Granted	—	—	55,000	15.44	—	—
Exercised	(39,800)	6.64	(7,650)	2.00	(41,100)	2.00
Forfeited/canceled	—	—	—	—	—	—
Outstanding at end of year	1,644,550	\$ 12.69	1,684,350	\$ 12.55	1,637,000	\$ 12.41
Options exercisable at year-end	721,300	\$ 11.96	614,100	\$ 11.33	448,500	\$ 10.24
Weighted average fair value of options granted during the year		\$ —		\$ 5.78		\$ —

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

Outstanding			Exercisable	
Number Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable at December 31, 2001	Weighted Average Exercise Price
95,800	.50	\$ 2.00	95,800	\$ 2.00
1,470,000	5.84	13.17	588,000	13.17
41,250	8.20	15.44	—	—
37,500	7.03	18.50	37,500	18.50
1,644,550	5.61	\$12.69	721,300	\$11.96

The weighted average exercise price represents actual exercise prices. No range of prices exist.

The per share weighted average fair value of stock options granted during 2000 was \$5.78. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 5.05%; expected volatility of 38.8%; expected life of 4.0 years; and dividend yield of 0.0%.

LONG-TERM INCENTIVE PLANS—SYNOVUS: Synovus has various stock option plans under which the Compensation Committee of its Board of Directors has authority to grant stock options to key Synovus employees, including TSYS employees. The general terms of the existing stock option plans include vesting periods ranging from two to three years and exercise periods ranging from five to ten years. Such stock options are granted at exercise prices which equal the fair market value of a share of common stock on the grant date.

In 2001, Synovus granted performance-accelerated stock options to certain key executives to acquire 2.6 million shares of Synovus stock at an exercise price of \$28.99. The options are exercisable in equal installments when the market price of Synovus common stock exceeds \$40, \$45 and \$50. However, all options may be exercised after seven years from the grant date.

During 1999, Synovus granted options to purchase 150 shares of stock to each employee, including TSYS and its subsidiaries, at an exercise price per share equal to the fair market value at the grant date of \$19.19. The total number of shares granted to TSYS employees to acquire Synovus stock under this program was 489,750. The options are exercisable after the price of Synovus' stock doubles or after three years, whichever comes first.

A summary of Synovus' stock option activity related to TSYS' employees as of December 31, 2001, 2000 and 1999 and changes during the years then ended is presented below:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options:						
Outstanding at beginning of year	3,479,558	\$ 17.43	3,467,568	\$ 17.14	2,654,848	\$ 15.16
Granted	3,062,523	28.60	324,122	18.06	1,001,933	21.07
Exercised	(344,987)	14.97	(183,869)	11.41	(146,343)	7.56
Forfeited/canceled	(55,785)	20.46	(128,263)	19.68	(42,870)	19.45
Outstanding at end of year	6,141,309	\$ 23.11	3,479,558	\$ 17.43	3,467,568	\$ 17.14
Options exercisable at year-end	2,083,099	\$ 16.62	1,539,283	\$ 13.22	1,106,230	\$ 10.75
Weighted average fair value of options granted during the year		\$ 8.56		\$ 6.42		\$ 5.41

The following table summarizes information about Synovus' stock options outstanding exercisable at December 31, 2001:

Range of Exercise Prices	Outstanding			Exercisable	
	Number Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable at December 31, 2001	Weighted Average Exercise Price
\$ 6.74	218,696	3.09	\$ 6.74	218,696	\$ 6.74
\$8.72-\$18.37	884,128	4.12	13.51	884,128	13.51
\$19.19-\$22.88	1,656,675	5.62	21.23	980,275	21.64
\$18.06	320,497	6.82	18.06	—	—
\$26.44-\$28.99	3,061,313	10.40	28.61	—	—
	6,141,309	7.76	\$ 23.11	2,083,099	\$ 16.62

The per share weighted average fair value of Synovus stock options granted to TSYS employees during 2001, 2000 and 1999 was \$8.56, \$6.42 and \$5.41, respectively. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2001, 2000 and 1999, respectively: risk-free interest rates of 4.6%, 6.4% and 5.3%; expected volatility of 31%, 36% and 36%; expected life of 5.7 years, 6.3 years and 4.3 years; and dividend yield of 1.8%, 2.3% and 1.7%.

PRO FORMA NET INCOME AND EARNINGS PER SHARE: The Company applies APB 25 and related interpretations in accounting for its plans. Had compensation cost for the Company's stock-based compensation plans (including the Synovus plans) been determined consistent with Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the unaudited pro forma amounts indicated below:

Years Ended December 31,	2001	2000	1999
Net income applicable to common stockholders			
As reported	\$ 102,902,029	85,643,381	68,592,976
Pro forma	99,418,426	81,824,048	64,349,852

Basic earnings per share:

As reported	.53	.44	.35
Pro forma	.51	.42	.33

Diluted earnings per share:

As reported	.53	.44	.35
Pro forma	.51	.42	.33

SUBSIDIARY OPTIONS: On May 1, 2000, TSYS formed DotsConnect as a wholly owned subsidiary for the purpose of providing e-payment services to buyers and sellers via the Internet. TSYS contributed \$5 million and a nominal amount of fixed assets in return for 20 million shares of common stock. DotsConnect established the DotsConnect, Inc. 2000 Long-term Incentive Plan (the "2000 Plan"). The purpose of the 2000 Plan was to attract and retain employees, to provide additional incentive for each participant to work to increase the value of DotsConnect and to enable such employees to acquire and maintain an equity interest in DotsConnect. DotsConnect awarded 1,496,500 options under the 2000 Plan. Of those granted in 2000, 475,000 options were awarded to six of TSYS' key executives.

As a result of the integration of DotsConnect's business into TSYS, the 2000 plan was cancelled in January 2002. TSYS paid approximately \$58,600 in cash to cancel a portion of the options, while the rest were cancelled without consideration.

ACCUMULATED OTHER COMPREHENSIVE LOSS: Comprehensive income for TSYS consists of net income and foreign currency translation adjustments recorded as a component of shareholders' equity. The income tax effects allocated to and the cumulative balance of each component of accumulated comprehensive loss are as follows:

	Balance at December 31, 2000	Pretax amount	Tax benefit	Balance at December 31, 2001
Currency translation adjustments	\$ (1,613,681)	(2,917,277)	1,075,620	\$ (3,455,338)
	Balance at December 31, 1999	Pretax amount	Tax benefit	Balance at December 31, 2000
Currency translation adjustments	\$ (1,453,708)	(248,739)	88,766	\$ (1,613,681)
	Balance at December 31, 1998	Pretax amount	Tax benefit	Balance at December 31, 1999
Currency translation adjustments	\$ (1,179,337)	(433,795)	159,424	\$ (1,453,708)

NOTE 7 Income Taxes

The provision for income taxes includes income taxes currently payable and those deferred because of temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities.

The components of income tax expense included in the Consolidated Statements of Income were as follows:

Years Ended December 31,	2001	2000	1999
Current income tax expense:			
Federal	\$ 41,496,285	41,649,857	32,816,025
State	(2,928,861)	313,216	1,624,604
Total current income tax expense	38,567,424	41,963,073	34,440,629
Deferred income tax expense:			
Federal	13,528,256	3,873,627	512,265
State	795,780	227,861	30,133
Total deferred income tax expense:	14,324,036	4,101,488	542,398
Total income tax expense	\$ 52,891,460	46,064,561	34,983,027

Income tax expense differed from the amounts computed by applying the statutory U.S. federal income tax rate of 35% to income before income taxes as a result of the following:

Years Ended December 31,	2001	2000	1999
Computed "expected" income tax expense	\$ 54,527,723	46,097,780	36,251,600
Increase (decrease) in income tax expense resulting from:			
State income tax expense (benefit), net of federal income tax effect	(1,386,503)	351,700	1,075,579
Foreign tax credits	(758,000)	(1,005,000)	(969,000)
Other, net	508,240	620,081	(1,375,152)
Total income tax expense	\$ 52,891,460	46,064,561	34,983,027

The tax effects of the significant components of deferred income tax assets and liabilities are presented in the following table:

As of December 31,	2001	2000
Deferred income tax assets:		
Allowances for processing transactions	\$ 2,766,772	3,792,899
Primarily accruals not deductible until paid	5,270,288	4,883,057
State tax credits	1,855,197	3,828,298
Gross deferred income tax assets	9,892,257	12,504,254
Less valuation allowance	(1,400,000)	(1,400,000)
Net deferred income tax assets	8,492,257	11,104,254
Deferred income tax liabilities:		
Computer software development costs	(24,725,512)	(17,662,312)
Excess tax over financial statement depreciation	(15,973,764)	(11,442,535)
Other, net	(5,854,385)	(5,736,775)
Gross deferred income tax liability	(46,553,661)	(34,841,622)
Net deferred income tax liability	\$ (38,061,404)	(23,737,368)

As of December 31, 2001 and 2000, TSYS had state income tax credit carryforwards of \$1,855,197 and \$3,828,298, respectively. The credits will begin to expire in the year 2008. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. At December 31, 2001 and 2000, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes that it is more likely than not that TSYS will realize the benefits of these deductible differences, net of existing valuation allowances. The valuation allowance for deferred tax assets was \$1,400,000 at December 31, 2001 and 2000.

NOTE 8 Employee Benefit Plans

The Company provides benefits to its employees by allowing employees to participate in certain defined contribution plans. These employee benefit plans are described as follows:

PROFIT SHARING PLAN: The Company's employees are eligible to participate in the Synovus Financial Corp./Total System Services, Inc. (Synovus/TSYS) Profit Sharing Plan. The Company's contributions to the plan are contingent upon achievement of certain financial goals. The terms of the plan limit the Company's contribution to 7% (9% in 1999) of participant compensation, as defined, not to exceed the maximum allowable deduction under Internal Revenue Service

guidelines. TSYS' annual contributions to the plan charged to expense are as follows:

2001	\$ 11,244,465
2000	10,024,695
1999	10,992,344

MONEY PURCHASE PLAN: The Company's employees are eligible to participate in the Synovus/TSYS Money Purchase Pension Plan, a defined contribution pension plan. The terms of the plan provide for the Company to make annual contribu-

tions to the plan equal to 7% of participant compensation, as defined. The Company's contributions to the plan charged to expense are as follows:

2001	\$ 11,321,652
2000	9,511,049
1999	8,413,213

401(k) PLAN: The Company's employees are eligible to participate in the Synovus/TSYS 401(k) Plan. The terms of the plan allow employees to contribute up to 15% of pretax compensation with a discretionary company contribution up to a maximum of 7% (5% in 1999) of participant compensation, as defined, based upon the Company's attainment of certain financial goals. The Company's contributions to the plan charged to expense are as follows:

2001	\$ 0
2000	6,774,850
1999	5,443,934

STOCK PURCHASE PLAN: The Company maintains stock purchase plans for employees and directors, whereby TSYS makes contributions equal to one-half of employee and director voluntary contributions. The funds are used to purchase presently issued and outstanding shares of TSYS common stock for the benefit of participants. TSYS' contributions to these plans charged to expense are as follows:

2001	\$ 3,089,487
2000	2,722,035
1999	2,352,505

POSTRETIREMENT MEDICAL BENEFITS PLAN: TSYS provides certain medical benefits to qualified retirees through a postretirement medical benefits plan. The benefit expense and accrued benefit cost associated with the plan are not significant to the Company's consolidated financial statements.

NOTE 9 Commitments and Contingencies

LEASE COMMITMENTS: TSYS is obligated under noncancelable operating leases for computer equipment and facilities. Management expects that, as these leases expire, they will be renewed or replaced by similar leases. In 1997, the Company entered into an operating lease agreement for the Company's corporate campus. Under the agreement, which is guaranteed by Synovus Financial Corp., the lessor paid for the construction and development costs and has leased the facilities to the Company for a term of three years which began in November 1999. The lease provides for substantial residual value guarantees and includes purchase options at the original cost of the property. The amount of the residual value guarantee relative to the assets under this lease is projected to be \$81.4 million. The terms of this lease financing arrangement require, among other things, that the Company maintain certain minimum financial ratios and provide certain information to the lessor.

The future minimum lease payments under noncancelable operating leases with remaining terms greater than one year for the next five years and thereafter and in the aggregate as of December 31, 2001, are as follows:

2002	\$ 99,127,382
2003	73,865,225
2004	43,727,124
2005	24,977,770
2006	16,232,763
Thereafter	7,171,496
	\$ 265,101,760

All computer equipment lease commitments come with a renewal option or an option to terminate the lease. Prior to lease expiration, TSYS decides which option to choose. These lease commitments may also be replaced with new lease commitments due to new technology.

Total rental expense under all operating leases in 2001, 2000 and 1999 was \$86,641,072, \$89,824,836 and \$85,928,317, respectively.

LOAN GUARANTEE: In the fourth quarter of 1999, the Company made a payment representing a contract acquisition cost of \$10.0 million to a prospective client. Under the terms of the arrangement, the prospective client agreed to repay the \$10.0 million in the event a processing agreement was not executed by July 1, 2000. Subsequently, the prospective client announced its intention to exit the credit card business through a sale of its accounts in 2000. The parent of the prospective client repaid the \$10.0 million advance in June 2000 by obtaining a five-year loan from CB&T. TSYS agreed to guarantee the loan. As of December 31, 2001, all payments on the loan have been made timely. The outstanding loan balance at December 31, 2001 was \$7.5 million. The Company does not anticipate any negative consequences to its results of operations and financial condition as a result of its loan guarantee.

CONTRACTUAL COMMITMENTS: In the normal course of its business, the Company maintains processing contracts with its clients. These processing contracts contain commitments, including, but not limited to, minimum standards and time frames against which the Company's performance is measured. In the event the Company does not meet its contractual commitments with its clients, the Company may incur penalties and/or certain clients may have the right to terminate their contracts with the Company. The Company does not believe that it will fail to meet its contractual commitments to an extent that will result in a material adverse effect on its financial condition or results of operations.

CONTINGENCIES: 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 adequately covered by insurance, or if not covered, are without merit or are of such kind or involve such amounts that would not have a material adverse effect on the financial condition or results of operations of the Company if disposed of unfavorably.

On November 10, 1998, a class action complaint was filed against Nations-Bank of Delaware, N.A., in the United States District Court for the Southern District of Mississippi. On March 23, 1999, the named plaintiff amended the complaint and named the Company and certain credit bureaus as defendants in the case. The named plaintiff alleged, among other things, that the defendants failed to report properly the credit standing of each member of the putative class. The named plaintiff defined the class as all persons and entities within the United States who obtained credit cards from NationsBank and whose accounts were purchased by or transferred to U.S. BankCard and whose accounts were reported to credit bureaus or credit agencies incorrectly in August 1998. The parties have reached a settlement of the litigation. On September 21, 2001, the Magistrate Judge for the United States District Court for the Southern District of Mississippi issued an order of final approval of that settlement pursuant to Rule 23(e) of the Federal Rules of Civil Procedure. Payments to settle the litigation were substantially covered by insurance.

NOTE 10 Supplementary Balance Sheet Information

Significant components of prepaid expenses and other current assets at December 31 are summarized as follows:

	2001	2000
Contract acquisition costs, net	\$ 11,899,957	9,644,657
Prepaid expenses	10,634,921	12,377,875
Other	14,539,328	8,169,716
Total	\$ 37,074,206	30,192,248

Significant components of other noncurrent assets at December 31 are summarized as follows:

	2001	2000
Contract acquisition costs, net	\$ 75,183,275	65,434,739
Investments in joint ventures, net	51,566,564	45,631,679
Other	18,991,515	14,840,965
Total	\$ 145,741,354	125,907,383

Amortization expense related to contract acquisition costs was \$6.6 million, \$7.2 million and \$11.8 million for 2001, 2000 and 1999 respectively.

Refer to Note 5 Investments in Joint Ventures for a discussion of joint ventures.

Significant components of other current liabilities at December 31 are summarized as follows:

	2001	2000
Customer postage deposits	\$ 19,065,119	18,751,617
Transaction processing accruals	5,326,554	8,717,456
Other	14,344,255	27,524,717
Total	\$ 38,735,928	54,993,790

NOTE 11 Segment Reporting

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 establishes standards for the way

public business enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected financial information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

Through an online accounting and bankcard data processing system, Total System Services, Inc. provides card processing services to card-issuing institutions in the United States, Mexico, Canada, Honduras, the Caribbean and Europe. TSYS' subsidiaries provide support services including correspondence processing, commercial printing and equipment leasing. Segments are identified based on the services provided. Transaction processing services account for approximately 86% of financial activity in all of the quantitative thresholds required to be measured under SFAS 131. Three subsidiaries were aggregated into transaction processing services. One of these subsidiaries provides programming support services solely to the parent company. Another subsidiary provides electronic commerce activities previously performed by TSYS for its clients. The other transaction processing subsidiary serves as a payment gateway for more than 100,000 merchants in Japan. The remaining segments were aggregated into support services.

Operating Segments	Transaction Processing Services	Support Services	Consolidated
2001			
Total revenue	\$ 574,362,301	80,690,241	\$ 655,052,542
Intersegment revenue	(1,636,747)	(3,008,145)	(4,644,892)
Revenue from external customers	\$ 572,725,554	77,682,096	\$ 650,407,650
Equity in income of joint ventures	\$ 17,824,455	—	\$ 17,824,455
Segment operating income	\$ 145,412,854	7,743,766	\$ 153,156,620
Income tax expense	\$ 50,790,779	2,100,681	\$ 52,891,460
Net income	\$ 96,815,337	6,086,692	\$ 102,902,029
Identifiable assets	\$ 641,144,796	58,583,787	\$ 699,728,583
Intersegment eliminations	(47,371,240)	(80,335)	(47,451,575)
Total assets	\$ 593,773,556	58,503,452	\$ 652,277,008
2000			
Total revenue	\$ 517,388,440	87,530,763	\$ 604,919,203
Intersegment revenue	(1,087,134)	(2,539,327)	(3,626,461)
Revenue from external customers	\$ 516,301,306	84,991,436	\$ 601,292,742
Equity in income of joint ventures	\$ 15,586,309	—	\$ 15,586,309
Segment operating income	\$ 115,936,333	12,255,669	\$ 128,192,002
Income tax expense	\$ 41,359,177	4,705,384	\$ 46,064,561
Net income	\$ 77,993,912	7,649,469	\$ 85,643,381
Identifiable assets	\$ 586,896,327	57,738,614	\$ 644,634,941
Intersegment eliminations	(43,264,302)	(146,813)	(43,411,115)
Total assets	\$ 543,632,025	57,591,801	\$ 601,223,826
1999			
Total revenue	\$ 465,243,321	71,319,006	\$ 536,562,327
Intersegment revenue	(779,800)	(1,856,516)	(2,636,316)
Revenue from external customers	\$ 464,463,521	69,462,490	\$ 533,926,011
Equity in income of joint ventures	\$ 12,326,609	—	\$ 12,326,609
Segment operating income	\$ 88,697,914	11,921,099	\$ 100,619,013
Income tax expense	\$ 30,473,569	4,509,458	\$ 34,983,027
Net income	\$ 61,159,112	7,433,864	\$ 68,592,976
Identifiable assets	\$ 451,776,573	47,704,132	\$ 499,480,705
Intersegment eliminations	(35,704,897)	(154,067)	(35,858,964)
Total assets	\$ 416,071,676	47,550,065	\$ 463,621,741

Geographic Area Data: The following geographic data represent revenues based on the geographic locations of customers.

(dollars in millions)	2001	2000	1999
United States	\$ 564.5	546.0	493.2
Canada*	35.5	33.3	22.5
Europe	23.5	—	—
Mexico	15.9	15.7	16.0
Japan	9.6	4.9	—
Other	1.4	1.4	2.2
	\$ 650.4	601.3	533.9

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

The Company maintains property and equipment in the following geographic areas:

At December 31, (dollars in millions)	2001	2000
United States	\$ 98.7	93.5
Europe	20.9	16.7
Canada	0.1	0.1
Japan	1.1	0.7
Totals	\$ 120.8	111.0

Major Customers:

Revenue	2001		2000		1999	
	Dollars	Percent of Total Revenues	Dollars	Percent of Total Revenues	Dollars	Percent of Total Revenues
(dollars in millions)						
One	\$ 101.1	15.5 %	\$ 93.0	15.5 %	\$ 86.9	16.3 %
Two	82.1	12.6	66.7	11.1	na	na
Three	na	na	61.3	10.2	na	na
Four	na	na	na	na	69.4	13.0
Totals	\$ 183.2	28.1 %	\$ 221.0	36.8 %	\$ 156.3	29.3 %

na = not applicable. Client represented less than 10% of total revenues.

For the year ended December 31, 2001, the Company had two major customers which accounted for approximately 28% of total revenues. For the year ended December 31, 2000, the Company had three major customers which accounted for approximately 37% of total revenues. For the year ended December 31, 1999, the Company had two major customers accounting for approximately 29% of total revenues. Revenues from major customers for the years reported are attributable to all reporting segments.

NOTE 12 Acquisitions

During August 2000, TSYS announced that it had purchased an equity position in an established electronic payments company in Japan. The Company paid \$4.7 million to acquire 51% of GP Net. The Company recorded \$2.0 million as goodwill. In November 2000, the Company acquired an additional 2% ownership in GP Net from another partner for \$95,310. TSYS' ownership of GP Net was lowered to 51.46% in August 2001 when another party purchased an ownership interest in GP Net. Because it acquired controlling interest, the Company is consolidating GP Net's financial statements. TSYS began consolidating GP Net's financial results as of September 1, 2000.

Effective January 1, 1999, TSYS acquired PCS from CB&T in exchange for 854,042 newly issued shares of TSYS common stock with a market value of approximately \$20.1 million. Prior to the acquisition by TSYS, PCS operated as a division of CB&T, providing services such as credit, collection and customer service to card-issuing financial institutions, including CB&T. The business of PCS became part of TSYS' wholly owned subsidiary, TSI.

Because the acquisition of PCS was a transaction between entities under common control, the Company has reflected the acquisition at historical cost in a manner similar to a pooling of interests and has reflected the results of operations of PCS in the Company's financial statements beginning January 1, 1999.

The impact of these transactions was not material.

The Company has not provided pro form financial information related to the acquisition as such pro forma was not significant.

The Company has not restated periods prior to 1999 because such restatement was not material.

NOTE 13 Subsequent Event

Effective January 1, 2002, TSYS acquired TSYS Total Debt Management, Inc. (TDM) from CB&T in exchange for 2,175,000 newly issued shares of TSYS common stock with a market value of approximately \$43.5 million. Prior to the acquisition, TDM operated as a wholly owned subsidiary of Synovus Financial Corp., providing third-party collection services. TDM will operate as a separate subsidiary of TSYS.

Because the acquisition of TDM was a transaction between entities under common control, the Company will reflect the acquisition at historical cost in accordance with SFAS 141 and will reflect the results of operations of TDM in the Company's financial statements beginning January 1, 2002.

The Company does not plan on restating periods prior to 2002 because such restatement was not material.



303 Peachtree Street, N.E.
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The Board of Directors
Total System Services, Inc.:

We have audited the accompanying consolidated balance sheets of Total System Services, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Total System Services, Inc. and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

January 15, 2002

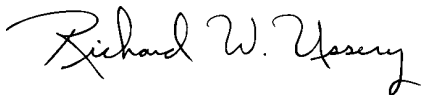
REPORT OF FINANCIAL RESPONSIBILITY

The management of Total System Services, Inc. is responsible for the integrity and objectivity of the consolidated financial statements and other financial information presented in this report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgements and estimates by management.

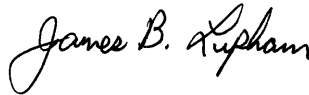
TSYS maintains internal accounting control policies and related procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of reliable published annual and interim financial statements and other financial information. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgement with respect to the relative cost and expected benefits of specific control measures. The Company also maintains an internal auditing function which evaluates and reports on the adequacy and effectiveness of internal accounting controls and policies and procedures.

KPMG LLP, independent auditors, are engaged to audit the Company's consolidated financial statements.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with TSYS' management, internal auditors and independent auditors to review matters relating to the quality of financial reporting and internal accounting controls. Both the internal auditors and the independent auditors have unrestricted access to the Committee.



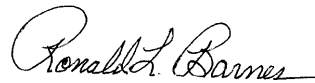
Richard W. Ussery
Chairman of the Board & Chief Executive Officer



James B. Lipham
Executive Vice President & Chief Financial Officer



Dorenda K. Weaver
Group Executive & Controller



Ronald L. Barnes
Group Executive & General Auditor

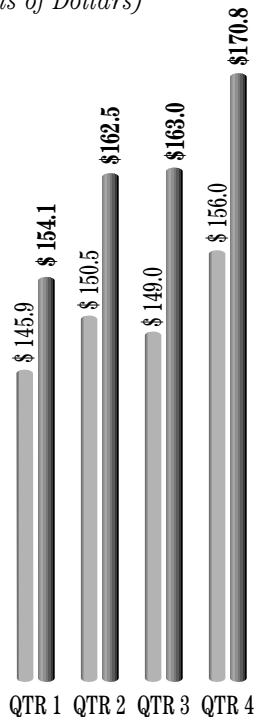
QUARTERLY FINANCIAL DATA, STOCK PRICE, DIVIDEND INFORMATION

TSYS' common stock trades on the New York Stock Exchange (NYSE) under the symbol "TSS." Price and volume information appears under the abbreviation "TotlSysSvc" in NYSE daily stock quotation listings. As of February 15, 2002, there were 11,911 holders of record of TSYS common stock, some of whom are holders in nominee name for the benefit of different shareholders.

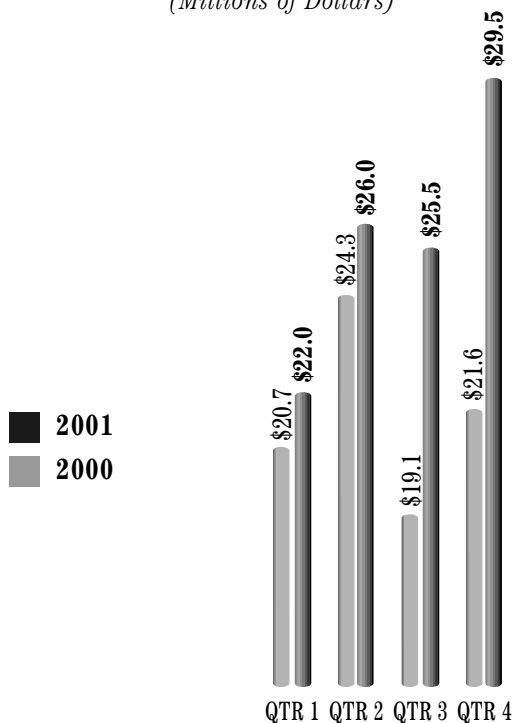
The fourth quarter dividend of \$.015 per share was declared on December 10, 2001, and was paid January 2, 2002, to shareholders of record on December 20, 2001. Total dividends declared in 2001 and in 2000 amounted to \$11.7 million and \$9.3 million, respectively. It is the present intention of the Board of Directors of TSYS to continue to pay cash dividends on its common stock.

Presented here is a summary of the unaudited quarterly financial data for the years ended December 31, 2001 and 2000.

REVENUES
(Millions of Dollars)



NET INCOME
(Millions of Dollars)



	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>(in thousands except per share data)</i>				
2001 Revenues	\$ 154,134	162,471	162,955	170,848
Operating income	32,476	39,455	38,084	43,142
Net income	22,015	25,956	25,458	29,473
Basic earnings per share .....	.11	.13	.13	.15
Diluted earnings per share .....	.11	.13	.13	.15
Cash dividends declared per share .....	.015	.015	.015	.015
Stock prices:				
High	24.630	32.000	35.840	26.450
Low	21.500	24.100	20.000	18.910
2000 Revenues	\$ 145,859	150,490	148,959	155,985
Operating income	30,525	36,276	28,667	32,724
Net income	20,657	24,331	19,066	21,589
Basic earnings per share .....	.11	.12	.10	.11
Diluted earnings per share .....	.11	.12	.10	.11
Cash dividends declared per share .....	.010	.013	.013	.013
Stock prices:				
High	18.563	20.625	18.750	22.750
Low	15.000	15.750	16.000	14.875