

**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 23.3% and 25.0%, respectively. The balance sheet data also reflect the continued strong financial position of TSYS, as evidenced by

the current ratio of 1.7:1 at December 31, 1999, 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,				
	1999	1998	1997	1996	1995
<b>Income Statement Data:</b>					
Revenues:					
Bankcard data processing services	\$456,840	350,310	324,718	277,870	218,953
Other services	77,086	45,884	36,781	33,778	30,755
Total revenues	533,926	396,194	361,499	311,648	249,708
Expenses:					
Salaries and other personnel expense	207,618	160,855	147,438	124,259	94,946
Net occupancy and equipment expense	151,964	105,658	94,685	82,118	64,549
Other operating expenses	86,052	63,312	59,447	53,368	47,291
Total operating expenses	445,634	329,825	301,570	259,745	206,786
Equity in income of joint ventures	12,327	12,974	9,347	7,094	69
Operating income	100,619	79,343	69,276	58,997	42,991
Nonoperating income:					
Gain (loss) on disposal of property and equipment, net	798	(48)	(36)	31	(123)
Interest income, net of expense	2,159	2,492	2,315	1,416	839
Total nonoperating income	2,957	2,444	2,279	1,447	716
Income before income taxes	103,576	81,787	71,555	60,444	43,707
Income taxes	34,983	26,956	24,077	21,007	15,977
Net income	\$ 68,593	54,831	47,478	39,437	27,730
Basic earnings per share	\$ .35	.28	.24	.20	.14
Diluted earnings per share	\$ .35	.28	.24	.20	.14
Cash dividends declared per share	\$ .040	.038	.030	.030	.030
Weighted average common shares outstanding	194,913	194,020	193,956	193,931	193,895
Weighted average common and common equivalent shares outstanding	195,479	194,669	194,239	194,177	194,123

<i>(in thousands)</i>	December 31,				
	1999	1998	1997	1996	1995
<b>Balance Sheet Data:</b>					
Total assets	\$ 457,350	348,908	296,858	245,759	199,000
Working capital	76,414	60,472	70,899	52,274	37,687
Total long-term debt	204	342	475	676	931
Shareholders' equity	334,292	270,354	221,255	178,878	144,472

## FINANCIAL REVIEW

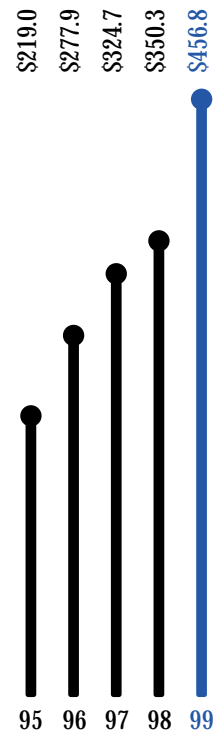
This Financial Review provides a discussion of the results of operations, financial condition, liquidity and capital resources of TSYS and creates awareness of the factors that have affected its recent earnings, as well as those factors that may affect its future earnings. The accompanying Consolidated 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.

### 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, TS<sup>2</sup> and TS<sup>1</sup>, to financial institutions and other organizations throughout the United States, Mexico, Canada, Honduras and the Caribbean.

**BANKCARD REVENUES**  
(Millions of Dollars)



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 bank, retail, debit, stored value and commercial card accounts. Due to the expanding use of cards and the increase in the number of cardholder accounts processed by TSYS, as well as increases in the scope of services offered to customers, revenues relating to bankcard data processing services have continued to grow. Processing contracts with large customers, representing a significant portion of the

Company's total revenues, generally provide for discounts on certain services based on the size and activity of customers' portfolios. Therefore, bankcard data processing revenues and the related margins are influenced by the customer mix relative to the size of customer card portfolios, as well as the number and activity of individual cardholder accounts processed for each customer.

Due to the 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 customers, the conversion of cardholder accounts of new customers to THE TOTAL SYSTEM, and the loss of cardholder accounts impact the results of oper-

ations 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 customer 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 industry could favorably or unfavorably impact TSYS' financial condition and results of operations in the future.

The average number of cardholder accounts on file increased 78.4% to 180.4 million in 1999, compared to 101.1 million in 1998, which represented a 15.9% increase over 87.2 million in 1997. At December 31, 1999, TSYS' cardholder accounts on file were approximately 206.2 million, up from 117.6 million and 92.8 million at December 31, 1998 and 1997, respectively. The increase in cardholder accounts on file at December 31, 1999, as compared to December 31, 1998, included net internal growth of existing customers of approximately 7.8 million accounts, and approximately 80.8 million accounts added during 1999 were due to new customers and portfolio acquisitions by existing customers.

TSYS had approximately 147.2 million accounts being processed on TS<sup>2</sup> at year-end 1999, compared to 62.8 million at year-end 1998 and 19.2 million at year-end 1997. The increase in accounts being processed on TS<sup>2</sup> during 1999 is the result of converting approximately 79.0 million new accounts and net internal growth of existing customers of approximately 5.4 million accounts.

TSYS and Visa U.S.A. Inc. formed a joint venture, known as Vital Processing Services L.L.C. (Vital), which offers fully integrated merchant transaction and related electronic information services to financial and nonfinancial institutions and their merchant customers. Vital is structured with its own management team and separate board of directors and has its corporate headquarters in Tempe, Arizona.

Since 1994, TSYS has been providing processing services for commercial cards which include purchasing cards, corporate cards and fleet cards for employees. At December 31, 1999, TSYS was processing approximately 10.8 million commercial card accounts, a 26.0% increase over the approximately 8.6 million being processed at year-end 1998, a 72.8% increase over the 5.0 million at year-end 1997. The increase in 1998 over 1997 is attributable to the addition of the U.S. General Services Administration's contracts for commercial card services.

As a result of the completion of the conversions of the account portfolios for Sears and Nordstrom, TSYS became the leading third-party processor of retail accounts. At December 31, 1999, TSYS was processing approximately 88.7 million retail card accounts, a 527.8% increase over the approximately 14.1 million being processed at year-end 1998, a 120.0% increase over the 6.4 million at year-end 1997. On a per account basis, the processing revenues generated by retail accounts are generally lower than the processing revenues associated with bankcard accounts. However, TSYS realizes profit

margins from retail accounts similar to those it generates from bankcard accounts.

A significant amount of the Company's revenues is derived from long-term contracts with large customers, including certain major customers. Two of the Company's customers, NationsBank and Bank of America, merged effective September 30, 1998. The new parent company of these entities is Bank of America Corporation. In September 1999, TSYS announced a new ten-year agreement with the combined entity to continue processing its credit card portfolio until 2009. The combination of NationsBank and Bank of America under a single processing agreement with TSYS reduced TSYS' revenues in 1999 and will reduce the Company's revenues in future years because together NationsBank and Bank of America will be entitled to receive greater discounts than either would have been entitled to receive standing alone. Bank of America accounted for approximately 16%, 21% and 20% of total revenues for the years ended December 31, 1999, 1998 and 1997, respectively. The loss of Bank of America, or any other major or significant customers, 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 Universal Card Services (UCS) to CITIBANK, a part of Citigroup. CITIBANK accounted for approximately 13%, 13% and 15% of total revenues for the years ended December 31, 1999, 1998 and 1997, respectively. 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. Consumer credit card accounts represented 66.6% of CITIBANK's revenues to TSYS for the year ended December 31, 1999. TSYS' management believes that CITIBANK will not be a major customer for the year 2000 and that the loss of revenues from CITIBANK for the months of August through December 2000, combined with decreased expenses from the reduction in hardware and software costs and the redeployment of personnel, should not have a material adverse effect on the Company's financial condition or results of operations for the year ending December 31, 2000.

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 converted the first 7.2 million of these accounts to TS<sup>2</sup> in October 1998 and 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.

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 customers with an option to lease certain

equipment necessary for online communications and for the use of TSYS applications. TSI provides TSYS customers and others with mail and correspondence processing services, tele-servicing, data documentation capabilities, offset printing, customer service, collections and account solicitation services. CPI provides full-service commercial printing services to TSYS customers and others.

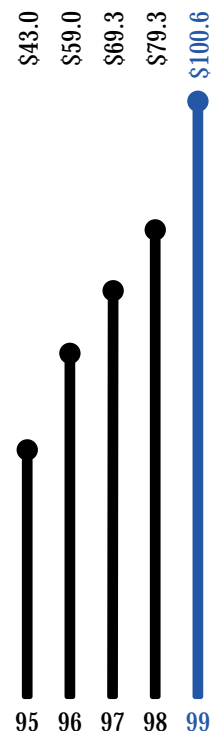
Effective January 1, 1999, TSYS acquired Partnership Card Services (PCS) from its majority shareholder, Columbus Bank and Trust Company (CB&T), the flagship bank of Synovus Financial Corp. The business of PCS has become part of TSYS' wholly owned subsidiary, TSI. During 1999, PCS generated revenues of approximately \$26.8 million.

### Operating Expenses

As a percentage of revenues, operating expenses increased in 1999 to 83.5%, compared to 83.2% and 83.4% for 1998 and 1997, respectively. Operating expenses were \$445.6 million in 1999, compared to \$329.8 million in 1998 and \$301.6 million in 1997. The principal increases in operating expenses in 1999 as compared to 1998 resulted from the addition of personnel; the additional investment in property, equipment and software; the development of global business—including the establishment of a physical presence in the United Kingdom; the cost of materials associated with the services provided by all companies, particularly the supplies related to processing the increased number of accounts; and certain costs associated with ongoing enhancements to TS<sup>2</sup>, as well as certain costs associated with the conversion of customers to TS<sup>2</sup>.

Salaries and other personnel expense increased 29.1% in 1999 over 1998, compared to 9.1% in 1998 over 1997. A significant portion of TSYS' operating expenses relates to salaries and other personnel costs. During 1999, the average number of employees increased to 4,106, compared to 3,382 in 1998 and 2,895 in 1997. The change in total employment costs consists of increases of \$61.7 million, \$32.8 million and \$27.6 million in 1999, 1998 and 1997, respectively. The increase in total employment costs are associated with the growth in the number of employees—including those attributable to the acquisition of PCS, salary increases and related employee benefits. These changes were reduced by \$14.9 million, \$19.4 million and \$4.4 million in 1999, 1998 and 1997, respectively, invested in software development costs and contract acquisition costs.

OPERATING INCOME  
(Millions of Dollars)



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 19:

	Percentage of Total Revenues Years Ended December 31,			Percentage Change in Dollar Amounts	
	1999	1998	1997	1999 vs 1998	1998 vs 1997
	<b>Revenues:</b>				
Bankcard data processing services	85.6%	88.4	89.8	30.4	7.9
Other services	14.4	11.6	10.2	68.0	24.7
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>34.8</b>	<b>9.6</b>
<b>Expenses:</b>					
Salaries and other personnel expense	38.9	40.6	40.8	29.1	9.1
Net occupancy and equipment expense	28.5	26.7	26.2	43.8	11.6
Other operating expenses	16.1	15.9	16.4	35.9	6.5
<b>Total operating expenses</b>	<b>83.5</b>	<b>83.2</b>	<b>83.4</b>	<b>35.1</b>	<b>9.4</b>
Equity in income of joint ventures	2.3	3.2	2.6	(5.0)	38.8
<b>Operating income</b>	<b>18.8</b>	<b>20.0</b>	<b>19.2</b>	<b>26.8</b>	<b>14.5</b>
<b>Nonoperating income:</b>					
Gain (loss) on disposal of property and equipment, net	0.2	(0.0)	(0.0)	nm	nm
Interest income, net of expense	0.4	0.6	0.6	(13.4)	7.7
<b>Total nonoperating income</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>21.0</b>	<b>7.2</b>
Income before income taxes	19.4	20.6	19.8	26.6	14.3
<b>Income taxes</b>	<b>6.6</b>	<b>6.8</b>	<b>6.7</b>	<b>29.8</b>	<b>12.0</b>
<b>Net income</b>	<b>12.8%</b>	<b>13.8</b>	<b>13.1</b>	<b>25.1</b>	<b>15.5</b>

nm = not meaningful

Due to the importance of technology to its business, a large portion of TSYS' employees are programmers—approximately 22.7% in 1999, compared to 26.0% and 31.1% in 1998 and 1997, respectively. The decrease in the percentage of programmers in 1999 is primarily the result of the increased number of nonprogramming personnel attributable to the PCS acquisition. Although TSYS has not experienced any 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.

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, 1999, approximately 641 graduates of these classes had become full-time employees of TSYS. The Company plans to continue to utilize ICAPP in the future to fulfill programming positions.

In February 1998, TSYS announced the formation of TSYS Canada, Inc. (TCI), a wholly owned subsidiary incorporated in the state of Georgia and headquartered in Columbus. On February 1, 1998, TCI opened an office in Welland, Ontario, Canada, which currently employs 21 programmers who are providing support and assistance with the conversion of card portfolios to TS<sup>2</sup>.

Net occupancy and equipment expense increased 43.8% in 1999 over 1998, compared to 11.6% in 1998 over 1997. Computer equipment and software rentals, which represent the largest component of net occupancy and equipment expense, increased \$27.5 million, or 51.5%, in 1999 compared to 1998, and \$3.1 million, or 6.2%, in 1998 compared to 1997. Due to rapidly changing technology in computer equipment and software, TSYS' equipment needs and software needs are achieved primarily through operating leases. During 1999 and the last half of 1998, the Company made significant investments in computer software licenses related to the new East Center data center to accommodate increased volumes and expected growth in the number of accounts associated with new and existing customers.

TSYS continues to monitor and assess its building and equipment needs as it positions itself for future growth and expansion. In 1997, construction began on a campus-type facility which now serves as the Company's corporate headquarters and houses administrative, client contact and programming team members. The Company has entered into an operating lease agreement relating to the new corporate campus. Under the agreement, the lessor has purchased the properties, 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 new campus facility in December 1998, and had completed the move of a substantial number of its personnel to this facility at 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 \$6.4 million in 1999, and is expected to be \$7.6 million in 2000, net of the relinquished lease obligations.

In addition, TSYS began an expansion of its operations center in north Columbus during 1997, which was completed in 1998. The Company moved its card production services from downtown Columbus into the new addition in December 1998. A separate building was completed on the North Center property in 1997 to serve as TSI's headquarters.

In 1998, TSYS also purchased 18 acres of land containing a 104,000 square-foot building in east Columbus. The building was prepared as an additional data center (East Center) and placed in service during the fourth quarter of 1998.

Other operating expenses increased 35.9% in 1999 compared to 1998 and 6.5% in 1998 compared to 1997. The increase in the growth rate of other operating expenses in 1999 is primarily due to amortization of increased contract acquisition costs which were \$12.3 million, \$6.9 million and \$4.4 million in 1999, 1998 and 1997, respectively; increased transaction processing provisions; increased travel and other business development costs associated with exploring both domestic and international business opportunities, including the establishment of an international office in the United Kingdom.

### **Operating Income**

Operating income increased 26.8% to \$100.6 million in 1999, compared to \$79.3 million in 1998, an increase of 14.5% over 1997 operating income of \$69.3 million. Excluding equity in income of joint ventures, operating income increased 33.0% to \$88.3 million, compared to \$66.4 million in 1998, and increased 10.7% over the amount for 1997 of \$59.9 million. The operating income margin decreased to 18.8% in 1999, compared to 20.0% and 19.2% in 1998 and 1997, respectively. The decrease in the operating margin was a result of operating expenses increasing at a faster rate than revenues in 1999.

### **Nonoperating Income**

Nonoperating income increased in 1999 over 1998 due to the gain on the sale of two of the Company's buildings related to the Company's move to the new corporate campus. Interest income for 1999 was \$2.2 million, a 13.0% decrease compared to the \$2.5 million in 1998, a 6.8% increase compared to \$2.4 million in 1997. Interest expense was \$36,000, a 22.7% increase over the \$29,000 in 1998, a 36.4% decrease compared to \$46,000 in 1997. The variation in interest income is attributable to the fluctuations in the cash available for investment.

### **Income Taxes**

Income tax expense was \$35.0 million, \$27.0 million and \$24.1 million in 1999, 1998 and 1997, respectively, representing effective income tax rates of 33.8%, 33.0% and 33.6%, respectively. The change in TSYS' effective income tax rate for 1999, as compared to 1998 and 1997, is attributable to certain state tax credits and the establishment of a valuation allowance relating to those credits.

### **Net Income**

Net income increased 25.1% to \$68.6 million (basic and diluted earnings per share of \$.35) in 1999 compared to 1998. In 1998, net income increased 15.5% to \$54.8 million (basic and diluted earnings per share of \$.28) compared to \$47.5 million (basic and diluted earnings per share of \$.24) in 1997. The increase in net income is attributable to increased operating revenues.

### **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 has been cash flows generated from operations, lease financing and the occasional use of borrowed funds to supplement financing of capital expenditures. TSYS' net cash provided by operating activities in 1999 was \$134.5 million, compared to \$62.9 million in 1998 and \$65.1 million in 1997. The major uses of cash flows 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 customers; and the payment of cash dividends.

Capital expenditures for property and equipment were \$19.8 million in 1999, compared to \$37.0 million in 1998 and \$18.0 million in 1997. Expenditures for purchased computer software were \$42.3 million in 1999, compared to \$29.5 million in 1998 and \$14.1 million in 1997. Additions to capitalized software development costs, principally enhancements to TS<sup>2</sup>, were \$11.9 million in 1999, \$10.0 million in 1998 and \$97,000 in 1997. During 1998, TSYS purchased and leased computer hardware and related equipment, including software, to establish the East Center data center and to accommodate future growth.

The Company's investments in contract acquisition costs were \$15.8 million in 1999, \$20.1 million in 1998 and \$17.6 million in 1997. These amounts include cash payments for processing rights and other direct salary related costs incurred in the connection with contracts.

At December 31, 1999, TSYS' carrying value in its investment in TSYS de México was \$7.5 million. During the years ended December 31, 1998 and 1997, due to Mexico's highly inflationary economy, TSYS expensed all currency translation adjustments. The Mexican economy was removed from highly inflationary status effective January 1, 1999. As a result, TSYS reflected currency translation adjustments in 1999 as an adjustment to the Company's equity investment in TSYS de México and in accumulated other comprehensive income. The Company had a currency translation adjustment of \$425,000 related to TSYS de México in 1999.

On January 1, 1999, TSYS acquired Partnership Card Services from its majority shareholder, CB&T, the flagship bank of Synovus Financial Corp., in exchange for 854,042 newly issued shares of TSYS common stock. 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. PCS has become part of TSYS' wholly owned subsidiary, TSI. This transaction increased CB&T's ownership of TSYS to 80.8%.

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. Through December 31, 1999, the Company had purchased 77,100 shares for \$1.3 million under this plan. Total dividends declared on TSYS common stock were \$7.8 million in 1999, \$7.3 million in 1998 and \$5.8 million in 1997. In April 1998, the Company increased its quarterly dividend by 33.3% to \$.01 per share from \$.0075 per share.

In 1997, construction was begun on a campus-type facility which now serves as the Company's corporate headquarters. The Company entered into an operating lease agreement relating to the new corporate campus. Under the agreement, the lessor purchased the land, paid for construction and development costs and leased the property to the Company. The lease provides for a substantial residual value guarantee, up to \$81.4 million, 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 obligations of the Company.

In addition, TSYS completed two construction projects in 1998, costing approximately \$25 million—the North Center expansion and the construction of an additional state-of-the-art data center, the new East Center.

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 1.7:1. At December 31, 1999, TSYS had working capital of \$76.4 million, compared to \$60.5 million in 1998 and \$70.9 million in 1997.

Management believes that outside sources for 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 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.

### **Year 2000 Readiness Disclosure**

Many computer programs were written with a two-digit date field. If these programs were not made Year 2000 compliant, they would not be able to correctly process date information for the year 2000 and beyond. Remediation efforts went beyond the Company's internal computer systems and required coordination with customers, vendors, government entities and other third parties to assure that their systems and related interfaces were compliant. Failure to achieve timely remediation of the Company's critical programs and computer systems for Year 2000 would have had a material adverse effect on the Company's financial condition and results of operations.

TSYS experienced a smooth transition in passing the century date changeover. TSYS did not experience any significant internal or external issues concerning Y2K, and all TSYS companies, systems, facilities and clients processed, and have continued to process, without incident. TSYS will continue to monitor Y2K issues by overseeing critical tasks during the year 2000. The TSYS Year 2000 Command Center and Command Posts will remain staffed during the first quarter of 2000, but on a smaller scale than during 1999. TSYS has executive and senior management scheduled on a rotating weekly schedule to handle issues as they arise. Heightened coverage of month-end, leap-year and quarter-end processing is planned, and TSYS intends to maintain its reporting methods to evaluate any problems.

TSYS currently estimates the total cost for the Year 2000 Project will amount to approximately \$17 million of direct costs. This amount consists primarily of the costs associated with personnel dedicated to the Year 2000 Project and hardware/software costs related to testing. During 1999, TSYS incurred \$6.8 million of direct costs associated with the Year 2000 Project and has incurred \$15.8 million since project inception.

### ***Safe Harbor For Year 2000 Forward-Looking Statements***

All forward-looking statements regarding Y2K readiness, including estimates, forecasts and expectations, are inherently uncertain as they are based on various expectations and assumptions concerning future events and are subject to numerous risks and uncertainties which could cause actual events or results to differ materially from those projected. Important factors upon which the Company's Y2K forward-looking statements are premised include: (a) retention of employees and contractors working on Y2K projects; (b) customers' remediation of their internal systems to be Y2K ready and their cooperation in timely testing; (c) no material disruption of telecommunication, data transmission networks, payment networks, government services, utilities or other infrastructure services and no unexpected failure of third-party products; (d) no unexpected failures by third parties providing services to the Company; (e) no undiscovered subversion of systems or program code affecting the Company's systems; and (f) no undiscovered material flaws in the Company's test processes.

### **Forward-Looking Statements**

Certain statements contained in this Annual Report which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). 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 revenues, 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, services or conversions; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to: (i) the strength of the U.S. economy in general and relevant foreign economies; (ii) the Company's performance under, and retention of, current and future processing agreements with customers; (iii) inflation,

interest rate and foreign exchange rate fluctuations; (iv) timely and successful implementation of processing systems to provide new products, improved functionality and increased efficiencies; (v) changes in consumer spending, borrowing and saving habits, including a shift from credit to debit cards; (vi) technological changes; (vii) acquisitions; (viii) the ability to increase market share and control expenses; (ix) changes in laws, regulations, credit card association rules or other industry standards affecting TSYS' business which require significant product redevelopment efforts; (x) 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; (xi) changes in TSYS' organization, compensation and benefit plans; (xii) the costs and effects of litigation; (xiii) failure to successfully implement the Company's Year 2000 modification plans substantially as scheduled and budgeted; (xiv) lower than anticipated internal growth rates for existing customers; and (xv) the success of TSYS at managing the risks involved in the foregoing.

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**

In November 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 alleges, among other things, that the defendants failed to report properly the credit standing of each member of the putative class. The named plaintiff has 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 amended complaint alleges negligence, violation of the Fair Credit Reporting Act, breach of the duty of good faith and fair dealing, and seeks declaratory relief, injunctive relief and the imposition of punitive damages. This lawsuit seeks unspecified damages. Though settlement negotiations have occurred, these negotiations have to date not resulted in a definitive settlement agreement among the parties. TSYS is not in a position to determine its possible exposure, if any, as a result of the litigation.

**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	1999	1998
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (includes \$54.3 million and \$9.4 million on deposit with a related party at 1999 and 1998, respectively)	\$ 54,903,107	9,555,760
Accounts receivable, net of allowance for doubtful accounts of \$1.3 million and \$711,000 at 1999 and 1998, respectively	99,601,498	84,795,727
Prepaid expenses and other current assets (note 10)	25,171,328	25,370,604
<b>Total current assets</b>	<b>179,675,933</b>	<b>119,722,091</b>
Property and equipment, net (Note 3)	96,254,657	92,619,005
Computer software, net (Note 4)	98,824,792	65,861,735
Other assets (Notes 5 and 10)	82,594,156	70,705,481
<b>Total assets</b>	<b>\$ 457,349,538</b>	<b>348,908,312</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 15,267,979	7,403,023
Accrued salaries and employee benefits	36,421,238	24,643,449
Current portion of long-term debt and obligations under capital leases	44,520	130,781
Other current liabilities (includes \$1.9 and \$1.7 million payable to related parties at 1999 and 1998, respectively) (Note 10)	51,528,099	27,072,542
<b>Total current liabilities</b>	<b>103,261,836</b>	<b>59,249,795</b>
Long-term debt and obligations under capital leases, excluding current portion	159,766	211,316
Deferred income taxes (Note 7)	19,635,880	19,093,482
<b>Total liabilities</b>	<b>123,057,482</b>	<b>78,554,593</b>
Shareholders' equity (Notes 2 and 6):		
Common stock — \$.10 par value. Authorized 300,000,000 shares; 195,079,087 and 194,225,045 issued at 1999 and 1998, respectively; 194,861,620 and 194,043,785 outstanding at 1999 and 1998, respectively	19,507,909	19,422,504
Additional paid-in capital	6,442,300	1,882,814
Accumulated other comprehensive income	(1,453,708)	(1,179,337)
Treasury stock	(1,529,176)	(300,788)
Retained earnings	311,324,731	250,528,526
<b>Total shareholders' equity</b>	<b>334,292,056</b>	<b>270,353,719</b>
Commitments and contingencies (Note 9)		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 457,349,538</b>	<b>348,908,312</b>

See accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31,		
	1999	1998	1997
<b>Revenues:</b>			
Bankcard data processing services (includes \$37.1 million, \$31.7 million and \$29.2 million from related parties for the years ended December 31, 1999, 1998 and 1997, respectively)	<b>\$ 456,839,589</b>	350,309,833	324,717,864
Other services (includes \$5.5 million, \$1.5 million and \$1.1 million from related parties for the years ended December 31, 1999, 1998 and 1997, respectively)	<b>77,086,422</b>	45,884,235	36,781,535
<b>Total revenues (Notes 2 and 11)</b>	<b>533,926,011</b>	396,194,068	361,499,399
<b>Expenses:</b>			
Salaries and other personnel expense	<b>207,618,319</b>	160,854,929	147,438,458
Net occupancy and equipment expense	<b>151,964,229</b>	105,658,033	94,685,343
Other operating expenses (includes \$13.1 million, \$10.9 million and \$10.4 million to related parties for the years ended December 31, 1999, 1998 and 1997, respectively)	<b>86,051,059</b>	63,312,582	59,446,283
<b>Total operating expenses (Note 2)</b>	<b>445,633,607</b>	329,825,544	301,570,084
Equity in income of joint ventures (Note 5)	<b>12,326,609</b>	12,974,348	9,347,183
<b>Operating income</b>	<b>100,619,013</b>	79,342,872	69,276,498
<b>Nonoperating income (expense):</b>			
Gain (loss) on disposal of property and equipment, net	<b>797,916</b>	(48,470)	(35,632)
Interest income, net of expense (includes \$1.9 million, \$2.3 million and \$2.1 million from a related party for the years ended December 31, 1999, 1998 and 1997, respectively)	<b>2,159,074</b>	2,492,725	2,315,043
<b>Total nonoperating income (Note 2)</b>	<b>2,956,990</b>	2,444,255	2,279,411
<b>Income before income taxes</b>	<b>103,576,003</b>	81,787,127	71,555,909
<b>Income taxes (Note 7)</b>	<b>34,983,027</b>	26,955,984	24,077,437
<b>Net income</b>	<b>\$ 68,592,976</b>	54,831,143	47,478,472
<b>Basic earnings per share</b>	<b>\$ .35</b>	.28	.24
<b>Diluted earnings per share</b>	<b>\$ .35</b>	.28	.24
<b>Weighted average common shares outstanding</b>	<b>194,912,983</b>	194,019,689	193,956,373
<b>Increase due to assumed issuance of shares related to stock options outstanding</b>	<b>565,610</b>	649,762	282,183
<b>Weighted average common and common equivalent shares outstanding</b>	<b>195,478,593</b>	194,669,451	194,238,556

*See accompanying Notes to Consolidated Financial Statements*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	1999	1998	1997
<b><i>Cash flows from operating activities:</i></b>			
Net income	\$ 68,592,976	54,831,143	47,478,472
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in income of joint ventures	(12,326,609)	(12,974,348)	(9,347,183)
Depreciation and amortization	50,182,601	37,473,673	29,141,073
Provision for doubtful accounts	665,500	18,000	94,000
Deferred income tax expense (benefit)	542,398	5,338,794	(1,546,790)
(Gain) loss on disposal of property and equipment, net	(797,916)	48,470	35,632
(Increase) decrease in:			
Accounts receivable	(15,471,271)	(15,362,807)	(10,500,389)
Prepaid expenses and other assets	(1,953,576)	(5,088,094)	(1,860,648)
Increase (decrease) in:			
Accounts payable	7,864,956	1,002,658	1,711,896
Accrued expenses and other current liabilities	37,228,296	(2,341,598)	9,911,535
Net cash provided by operating activities	134,527,355	62,945,891	65,117,598
<b><i>Cash flows from investing activities:</i></b>			
Purchase of property and equipment	(19,772,202)	(36,998,466)	(18,033,160)
Additions to computer software	(54,188,928)	(39,502,459)	(15,106,064)
Proceeds from disposal of property and equipment	4,540,483	86,669	74,797
Dividends received from joint ventures	5,104,905	5,618,616	3,252,561
Increase in contract acquisition costs	(15,812,318)	(20,104,849)	(17,557,631)
Purchase of short-term investments	—	—	(998,228)
Redemption of short-term investments	—	998,228	5,000,000
Net cash used in investing activities	(80,128,060)	(89,902,261)	(43,367,725)
<b><i>Cash flows from financing activities:</i></b>			
Purchase of common stock	(1,290,748)	—	—
Principal payments on long-term debt and obligations under capital leases	(70,619)	(132,415)	(201,275)
Dividends paid on common stock	(7,787,981)	(6,790,492)	(5,818,326)
Proceeds from exercise of stock options	97,400	99,115	109,593
Net cash used in financing activities	(9,051,948)	(6,823,792)	(5,910,008)
Net increase (decrease) in cash and cash equivalents	45,347,347	(33,780,162)	15,839,865
Cash and cash equivalents at beginning of year	9,555,760	43,335,922	27,496,057
Cash and cash equivalents at end of year	\$ 54,903,107	9,555,760	43,335,922
Cash paid for interest (net of capitalized amounts)	\$ 23,934	29,399	46,691
Cash paid for income taxes (net of refunds received)	\$ 24,647,585	27,167,086	22,908,026

Significant noncash transaction: 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 12).

See accompanying Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**

Years Ended December 31, 1999, 1998 and 1997							
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total Shareholders' Equity
	Shares	Amount					
At December 31, 1996	194,225,283	\$19,422,528	324,851	(1,178,182)	(473,544)	160,782,094	\$178,877,747
Net income	—	—	—	—	—	47,478,472	47,478,472
Common stock issued from treasury shares for exercise of stock options (Note 6)	—	—	102,434	—	95,843	—	198,277
Amortization of restricted stock awards	—	—	—	—	—	487,242	487,242
Cash dividends declared (\$.030 per share)	—	—	—	—	—	(5,818,770)	(5,818,770)
Tax benefit associated with stock awards	—	—	31,788	—	—	—	31,788
At December 31, 1997	194,225,283	19,422,528	459,073	(1,178,182)	(377,701)	202,929,038	221,254,756
Comprehensive income:							
Net income	—	—	—	—	—	54,831,143	54,831,143
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	—	—	—	(1,155)	—	—	(1,155)
Other comprehensive income (loss)	—	—	—	—	—	—	(1,155)
Comprehensive income	—	—	—	—	—	—	54,829,988
Common stock issued from treasury shares for exercise of stock options (Note 6)	—	—	91,292	—	76,913	—	168,205
Amortization of restricted stock awards	—	—	—	—	—	44,325	44,325
Cash paid for fractional shares in connection with stock split	(238)	(24)	(4,738)	—	—	—	(4,762)
Cash dividends declared (\$.038 per share)	—	—	—	—	—	(7,275,980)	(7,275,980)
Tax benefit associated with stock awards	—	—	1,337,187	—	—	—	1,337,187
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 income (loss), net of tax:							
Foreign currency translation adjustments	—	—	—	(274,371)	—	—	(274,371)
Other comprehensive income (loss)	—	—	—	—	—	—	(274,371)
Comprehensive income	—	—	—	—	—	—	68,318,605
Common stock issued in acquisition (Note 12)	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	—	—	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

See accompanying Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 Basis of Presentation and Summary of Significant Accounting Policies**

**Business:** Total System Services, Inc. (TSYS or the Company) is an 80.8% 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 and the Caribbean.

**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., Columbus Productions, Inc. and TSYS Canada, Inc. Significant inter-company accounts and transactions have been eliminated in consolidation.

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 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.

**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.

**Computer Software:** The Company capitalizes software development costs incurred from the time technological feasibility of the software product or enhancement is established until the software is ready for use in licensing to or providing processing services to customers. Research and development costs and computer software maintenance costs are expensed as incurred. Software development costs related to the TS<sup>2</sup> processing system are amortized using the greater of (1) the straight-line method over the estimated useful life of 10 years or (2) the ratio of current revenues to current and anticipated revenues. All other software development costs and costs of purchased computer software are amortized using the greater of (1) the straight-line method over the estimated useful life (3-5 years) or (2) the ratio of current revenues to current and anticipated revenues.

The carrying value of computer software costs is reviewed for impairment by the Company, and impairments are recognized when the expected undiscounted net operating cash flows derived from such intangible assets are less than their carrying value. If such review indicates impairment, the Company uses fair value in determining the amount that should be written off.

**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 services are performed. The Company's bankcard data processing service contracts generally contain original terms ranging from three to ten years. The Company's other service revenues are recognized as those services are performed.

**Contract Acquisition Costs:** The Company capitalizes contract acquisition costs related to signing or renewing long-term contracts. These costs, which primarily consist of cash payments for rights to provide processing services, incremental internal conversion and software development costs, and third-party software development costs, are amortized using the straight-line method over the contract term beginning when the customer's cardholder accounts are converted to the Company's processing system. 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. If such review indicates impairment, the Company uses fair value in determining the amount that should be written off. All costs incurred prior to contract execution are expensed as incurred.

**Goodwill:** Goodwill results from the excess of cost over the fair value of net assets of businesses acquired and is being 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.

**Income Taxes:** Income tax expense reflected in TSYS' consolidated financial statements is computed based on the taxable income of TSYS as a separate 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 Flow Reporting:** 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 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, and displays treasury stock as a reduction of shareholders' equity.

**Foreign Currency Translation:** Foreign currency financial statements of the Company's Mexican joint venture and the Company's wholly owned subsidiary with an operation in Canada are translated into U.S. dollars at current exchange rates, except for revenues, costs and expenses, and net income which are translated at the average exchange rates for each reporting period. Net exchange gains or losses resulting from the translation of assets and liabilities of the Canadian operation, net of tax, are accumulated in a separate section of shareholders' equity titled accumulated other comprehensive income.

From January 1, 1997, through December 31, 1998, the Mexican economy was designated as highly inflationary, and thus all currency translation adjustments related to the Mexican joint venture for the years ended December 31, 1998 and 1997, were expensed. The Mexican economy was removed from highly inflationary status effective January 1, 1999; thus, net exchange gains or losses resulting from the translation of assets and liabilities of the Company's Mexican joint venture, net of tax, are accumulated in a separate section of shareholders' equity titled accumulated other comprehensive income.

**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.

**Reclassifications:** Certain reclassifications have been made to the 1998 and 1997 financial statements to conform to the presentation adopted in 1999.

**Recent Accounting Pronouncements:** In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (outside earnings) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss is reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in earnings in the period of change.

For TSYS, SFAS 133, as amended by SFAS 137, is effective January 1, 2001. On adoption, the provisions of

SFAS 133 must be applied prospectively. TSYS is in the process of assessing the impact that SFAS 133 will have on its financial statements.

## **NOTE 2 Relationships with Affiliated Companies**

At December 31, 1999, CB&T owned 157,455,980 shares (approximately 80.8%) of TSYS common stock.

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 \$8,049,915, \$4,225,439 and \$2,609,762 during the years ended December 31, 1999, 1998 and 1997, respectively. Miscellaneous data processing services performed by TSYS for certain Synovus nonbanking affiliates generated revenues of \$221,844, \$175,801 and \$148,036 during the years ended December 31, 1999, 1998 and 1997, 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 \$15,954,155, \$17,362,650 and \$18,365,224 for the years ended December 31, 1999, 1998 and 1997, respectively. Merchant processing revenues, included in bankcard data processing revenues, related to Vital, the Company's joint venture with Visa, were \$12,898,723, \$9,873,293 and \$8,115,010 for the years ended December 31, 1999, 1998 and 1997.

Revenues from other services provided by TSYS to Synovus and its affiliates were \$5,483,784, \$1,539,009 and \$1,110,899 during the years ended December 31, 1999, 1998 and 1997, respectively.

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 1999 or 1998.

In 1999, 1998 and 1997, TSYS received interest income of \$1,865,621, \$2,342,416 and \$2,075,315, respectively from CB&T. In 1997, TSYS paid CB&T interest of \$123,420 on a short-term construction loan, all of which was capitalized.

During 1999, 1998 and 1997, Synovus Technologies, Inc. (STI) paid TSYS \$143,405, \$248,187 and \$224,154, respectively, for data links, network services and other miscellaneous items.

TSYS leases a portion of its facilities from STI and CB&T, and leases portions of the buildings it owns to CB&T. TSYS made lease payments for facilities to STI of \$220,000 in 1998 and \$240,000 in 1997. Lease payments made to CB&T amounted to \$36,308 in 1999, \$72,515 in 1998 and \$53,790 in 1997. Lease payments received from CB&T amounted to \$18,411 in 1998 and \$11,628 in 1997.

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 \$1,524,780 in 1999, \$1,283,494 in 1998 and \$1,216,089 in 1997.

TSYS maintains an agreement with Synovus Service Corp. (SSC) to provide human resource, payroll, security, maintenance and other administrative services to TSYS and its subsidiaries. TSYS paid SSC \$10,639,179, \$9,892,790 and \$9,232,001 for these services in 1999, 1998 and 1997, respectively. TSYS received \$51,594 in 1999 and \$26,169 in 1998 and in 1997 in rent from SSC. TSYS also received \$382,840 and \$199,492 in 1999 and 1998, respectively, for data processing provided to SSC. TSYS made lease payments to SSC for \$27,690 in 1998 and \$31,274 in 1997.

Due to the addition of Partnership Card Services, TSYS paid CB&T \$345,893 in 1999 for marketing rights. TSYS also paid STI \$765,741 in 1999 for fees associated with lockbox services.

TSYS maintains deposit accounts with CB&T, the majority of which are interest-earning and on which TSYS receives market rates of interest. Included in cash and cash equivalents are deposit balances with CB&T of \$54.3 million and \$9.4 million at December 31, 1999 and 1998, respectively.

Certain officers of TSYS and other TSYS employees participate in the Synovus Incentive Plans. Nonqualified options to acquire Synovus common stock were granted in 1999, 1998 and 1997 as follows:

	Number of Shares		
	1999	1998	1997
Stock options	948,683	849,431	545,875

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 and become exercisable over two to three years and expire eight to ten years from date of grant.

In 1996, certain officers were also granted restricted stock awards valued at the price paid for the Synovus shares at the date of grant of \$764,422, which is being amortized as compensation expense over the five-year vesting period.

The Company believes the terms and conditions of transactions between TSYS, CB&T, Synovus and other affiliated companies are comparable to those which could have been obtained in transactions with unaffiliated parties.

### NOTE 3 Property and Equipment

Property and equipment balances at December 31 are as follows:

	1999	1998
Land	\$ 6,092,433	2,784,807
Buildings and improvements	66,758,819	69,956,718
Computer equipment	57,105,222	49,738,864
Furniture and other equipment	48,643,289	46,883,429
Construction in progress	644,345	239,939
	179,244,108	169,603,757
Less accumulated depreciation and amortization	82,989,451	76,984,752
Property and equipment, net	\$ 96,254,657	92,619,005

Depreciation and amortization of property and equipment was \$15,637,169, \$13,212,897 and \$11,935,776 for the years ended December 31, 1999, 1998 and 1997, respectively.

### NOTE 4 Computer Software

Computer software at December 31 is summarized as follows:

	1999	1998
Purchased computer software	\$111,331,549	68,636,125
TS <sup>2</sup>	33,048,872	33,048,872
Other capitalized software development costs	26,786,646	14,853,415
	171,167,067	116,538,412
Less accumulated amortization	72,342,275	50,676,677
Computer software, net	\$ 98,824,792	65,861,735

Amortization expense related to purchased computer software costs was \$16,153,985, \$12,057,582 and \$7,212,571 for the years ended December 31, 1999, 1998 and 1997, respectively. Amortization of TS<sup>2</sup> and capitalized software development costs was \$5,472,776, \$4,716,278 and \$4,455,148 for the years ended December 31, 1999, 1998 and 1997, respectively.

#### **NOTE 5 Investment in Joint Venture**

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 of merchants. The condensed financial information for this joint venture as of December 31, 1999 and 1998, and for the years ended December 31, 1999, 1998 and 1997, is summarized as follows:

	1999	1998	
<b>Balance Sheet Data:</b>			
Current assets	\$63,066,000	45,761,000	
Total assets	86,337,000	63,586,000	
Liabilities (all current)	30,412,000	21,036,000	
	1999	1998	1997
<b>Statement of Income Data:</b>			
Revenues	\$151,581,000	127,222,000	111,322,000
Operating income	19,234,000	19,526,000	13,054,000
Net income*	20,065,000	20,725,000	13,957,000

\*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.

#### **NOTE 6 Shareholders' Equity**

**Stock Split:** In May 1998, a three-for-two common stock split was effected in the form of a stock dividend. All share and shareholders' equity amounts included herein have been restated to reflect the split for all periods presented.

**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 next two years. Through December 31, 1999, the Company had purchased 77,100 shares for \$1.3 million under this plan. At December 31, 1999, 217,467 shares were held as treasury shares at a cost of \$1,529,176. At December 31, 1998 and 1997, 181,260 shares at a cost of \$300,788 and 229,946 shares at a cost of \$377,701, respectively, were held as treasury shares.

During 1999, certain employees of the Company exercised options for 41,100 shares of common stock that were issued from treasury shares. During 1998 and 1997, employees exercised options for 48,925 and 63,975 shares of common stock, respectively.

**Long-Term Incentive Plan:** 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; 2.4 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, 1999, there were options outstanding under the LTI Plan to purchase 1,599,500 shares of the Company's common stock, of which 423,500 shares were exercisable. There were no shares available for grant at December 31, 1999, under the LTI Plan. Additionally, options (not issued under the LTI Plan) to purchase 37,500 shares of the Company's common stock were outstanding at December 31, 1999, of which 25,000 were exercisable.

A summary of the status of the Company's options granted as of December 31, 1999, 1998 and 1997, and changes during the years ended on those dates is presented below:

	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options:						
Outstanding at beginning of year	1,678,100	\$12.15	1,727,025	\$11.86	283,500	\$ 2.00
Granted	—	—	—	—	1,507,500	13.30
Exercised	(41,100)	2.00	(48,925)	2.00	(63,975)	2.00
Forfeited/canceled	—	—	—	—	—	—
Outstanding at end of year	1,637,000	\$12.41	1,678,100	\$12.15	1,727,025	\$11.86
Options exercisable at year-end	448,500	\$10.24	330,100	\$ 7.60	219,525	\$ 2.00
Weighted average fair value of options granted during the year		\$ —		\$ —		\$ 5.31

The following table summarizes information about stock options outstanding at December 31, 1999:

Number Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable at December 31, 1999	Weighted Average Exercise Price
129,500	2.50	\$ 2.00	129,500	\$ 2.00
37,500	9.03	18.50	25,000	18.50
1,470,000	7.84	13.17	294,000	13.17
1,637,000	7.44	\$12.41	448,500	\$10.24

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Had compensation cost for the Company's stock-based compensation plans been determined consistent with Statement of Financial Accounting Standards No. 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 to the right:

	Years Ended December 31, 1999	1998	1997
Net income applicable to common shareholders			
As reported	\$ 68,592,976	54,831,143	47,478,472
Pro forma	67,411,857	53,156,712	47,150,775
Basic earnings per share:			
As reported	.35	.28	.24
Pro forma	.35	.27	.24
Diluted earnings per share:			
As reported	.35	.28	.24
Pro forma	.34	.27	.24

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used: dividend yield of 0.0%; expected volatility of 41.6%; risk-free interest rate of 5.87%; and expected lives of 3.95 years for all options.

**Accumulated Other Comprehensive Income:** 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 other comprehensive income are as follows:

	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)
	Balance at December 31, 1997	Pretax Amount	Tax Benefit	Balance at December 31, 1998
Currency translation adjustments	\$(1,178,182)	(1,155)	—	\$(1,179,337)

## 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,	1999	1998	1997
Current income tax expense:			
Federal	\$ 32,816,025	20,669,630	24,267,412
State	1,624,604	947,560	1,356,815
Total current income tax expense	34,440,629	21,617,190	25,624,227
Deferred income tax expense (benefit):			
Federal	512,265	5,042,194	(1,460,857)
State	30,133	296,600	(85,933)
Total deferred income tax expense (benefit):	542,398	5,338,794	(1,546,790)
Total income tax expense	\$ 34,983,027	26,955,984	24,077,437

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,	1999	1998	1997
Computed "expected" income tax expense	\$ 36,251,600	28,625,494	25,044,568
Increase (decrease) in income tax expense resulting from:			
State income tax expense, net of federal income tax benefit	1,075,579	808,704	826,073
Foreign tax credits	(969,000)	(1,473,788)	(1,335,483)
Other, net	(1,375,152)	(1,004,426)	(457,721)
Total income tax expense	\$ 34,983,027	26,955,984	24,077,437

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

At December 31,	1999	1998
Deferred income tax assets:		
Primarily accruals not deductible until paid	\$ 8,200,673	6,016,675
State income tax credits	2,621,530	—
Gross deferred income tax assets	10,822,203	6,016,675
Less valuation allowance	(1,400,000)	—
Net deferred income tax assets	9,422,203	6,016,675
Deferred income tax liabilities:		
Computer software development costs	(18,310,745)	(20,029,964)
Excess tax over financial statement depreciation	(6,306,942)	(1,961,901)
Other, net	(4,440,396)	(3,118,292)
Gross deferred income tax liability	(29,058,083)	(25,110,157)
Net deferred income tax liability	\$ (19,635,880)	(19,093,482)

As of December 31, 1999, TSYS had state income tax credit carryforwards of \$2,621,530. 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, 1999, 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 as of December 31, 1999, was \$1,400,000. There was no valuation allowance at December 31, 1998.

**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 9% 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:

1999	\$10,992,344
1998	8,365,937
1997	6,828,175

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

1999	\$8,413,213
1998	6,438,388
1997	5,294,540

**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 10% of pretax compensation with a discretionary company contribution up to a maximum of 5% 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:

1999	\$5,443,934
1998	1,142,828
1997	21,861

**Stock Purchase Plan:** The Company maintains stock purchase plans for directors and employees, 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:

1999	\$2,352,505
1998	1,862,698
1997	1,588,618

**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 new 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 beginning in November 1999. The lease provides for substantial residual value guarantees and includes purchase options at original cost of the property. The amount of the residual value guarantees 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, 1999, are as follows:

2000	\$96,739,240
2001	99,353,493
2002	85,029,844
2003	44,741,177
2004 and thereafter	35,354,852
	\$361,218,606

Total rental expense under all operating leases in 1999, 1998 and 1997 was \$85,928,317, \$55,926,412 and \$52,765,480, respectively.

**Contractual Commitments:** In the normal course of its business, the Company maintains processing contracts with its customers. 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 customers, the Company may incur penalties and/or certain customers 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.

In November 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 alleges, among other things, that the defendants failed to report properly the credit standing of each member of the putative class. The named plaintiff has 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 amended complaint alleges negligence, violation of the Fair Credit Reporting Act, breach of the duty of good faith and fair dealing, and seeks declaratory relief, injunctive relief and the imposition of punitive damages. This lawsuit seeks unspecified damages. Though settlement negotiations have occurred, these negotiations have to date not resulted in a definitive settlement agreement among the parties. TSYS is not in a position to determine its possible exposure, if any, as a result of the litigation.

## NOTE 10 Supplementary Balance Sheet Information

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

	1999	1998
Contract acquisition costs, net	\$7,861,069	9,900,416
Prepaid expenses	9,709,740	7,643,395
Other	7,600,519	7,826,793
Total	\$25,171,328	25,370,604

Significant components of other noncurrent assets are summarized as follows:

	1999	1998
Contract acquisition costs, net	\$43,001,304	36,780,395
Investment in joint ventures,	35,101,217	28,304,322
Other	4,491,635	5,620,764
Total	\$82,594,156	70,705,481

Significant components of other current liabilities are summarized as follows:

	1999	1998
Customer postage deposits	\$14,913,211	14,753,284
Transaction processing provisions	5,445,862	3,941,318
Other	31,169,026	8,377,940
Total	\$51,528,099	27,072,542

## 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 and the Caribbean. 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 more than 85% of financial activity in all of the quantitative thresholds required to be measured under SFAS 131. One subsidiary, whose sole business activity is to provide programming support services to the parent company, was aggregated into transaction processing services. The remaining segments were aggregated into support services.

<b>Operating Segments</b>	<b>Transaction Processing Services</b>	<b>Support Services</b>	<b>Consolidated</b>
<b>1999</b>			
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	\$ 445,504,370	47,704,132	\$ 493,208,502
Intersegment eliminations	(35,704,897)	(154,067)	(35,858,964)
Total assets	\$ 409,799,473	47,550,065	\$ 457,349,538
<b>1998</b>			
Total revenue	\$ 356,744,792	41,330,147	\$ 398,074,939
Intersegment revenue	(502,069)	(1,378,802)	(1,880,871)
Revenue from external customers	\$ 356,242,723	39,951,345	\$ 396,194,068
Equity in income of joint ventures	\$ 12,974,348	—	\$ 12,974,348
Segment operating income	\$ 72,722,361	6,620,511	\$ 79,342,872
Income tax expense	\$ 24,488,076	2,467,908	\$ 26,955,984
Net income	\$ 50,980,990	3,850,153	\$ 54,831,143
Identifiable assets	\$ 341,926,653	32,895,850	\$ 374,822,503
Intersegment eliminations	(24,955,949)	(958,242)	(25,914,191)
Total assets	\$ 316,970,704	31,937,608	\$ 348,908,312
<b>1997</b>			
Total revenue	\$ 330,137,416	31,988,727	\$ 362,126,143
Intersegment revenue	(76,038)	(550,706)	(626,744)
Revenue from external customers	\$ 330,061,378	31,438,021	\$ 361,499,399
Equity in income of joint ventures	\$ 9,347,183	—	\$ 9,347,183
Segment operating income	\$ 64,495,841	4,780,657	\$ 69,276,498
Income tax expense	\$ 22,186,324	1,891,113	\$ 24,077,437
Net income	\$ 44,584,665	2,893,807	\$ 47,478,472
Identifiable assets	\$ 289,094,906	32,158,029	\$ 321,252,935
Intersegment eliminations	(24,333,886)	(61,112)	(24,394,998)
Total assets	\$ 264,761,020	32,096,917	\$ 296,857,937

**Geographic Area Data:** The following geographic data represent revenues based on the geographic locations of customers. Substantially all property and equipment is located in the United States.

	<b>1999</b>	<b>1998</b>	<b>1997</b>
United States	\$ 493,231,724	376,303,345	341,901,236
Mexico	15,954,041	17,362,650	18,365,222
Canada	22,531,042	1,838,322	659,783
Other	2,209,204	689,751	573,158
Totals	\$ 533,926,011	396,194,068	361,499,399

**Major Customers:** For the years ended December 31, 1999, 1998 and 1997, two major customers accounted for approximately 29%, 34% and 35% of total revenues, respectively. One of these customers provided 16%, or \$86.9 million, of total revenues in 1999; 21%, or \$82.3 million, in 1998; and 20%, or \$70.3 million, in 1997. The other major customer accounted for 13%, or \$69.3 million, of total revenues in 1999; 13%, or \$53.1 million, in 1998; and 15%, or \$55.0 million, in 1997. Revenues from major customers for the years reported are attributable to all reporting segments.

## **NOTE 12 Acquisition**

Effective January 1, 1999, TSYS acquired Partnership Card Services (PCS) from its majority shareholder, Columbus Bank and Trust Company, the flagship bank of Synovus Financial Corp., 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 has become 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.

Presented below are the pro forma consolidated results of TSYS' operations for the years 1998 and 1997, as though the acquisition of PCS had occurred at the beginning of 1997, compared to TSYS' actual consolidated results of operations for 1999.

	Years Ended December 31,		
	1999	1998	1997
Revenues	\$533,926,011	410,417,905	367,244,690
Net Income	68,592,976	56,408,790	48,395,247
Earnings per share –			
basic and diluted	.35	.29	.25

**REPORT OF INDEPENDENT AUDITORS**

303 Peachtree Street, N.E.  
Suite 2000  
Atlanta, GA 30308

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, 1999 and 1998, 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, 1999. 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 generally accepted auditing standards. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

**KPMG LLP**

January 11, 2000

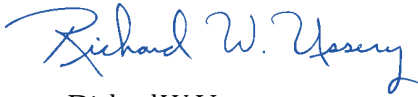
**REPORT OF FINANCIAL RESPONSIBILITY**

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.

The Company's consolidated financial statements have been audited by independent auditors who have expressed their opinion with respect to the fairness of these 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  
Senior Vice President & Controller



Ronald L. Barnes  
Senior Vice President & General Auditor

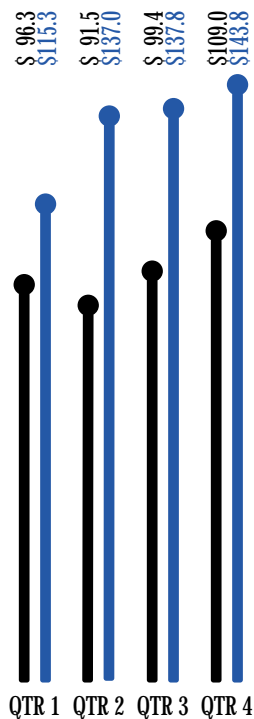
**QUARTERLY FINANCIAL DATA, STOCK PRICE, DIVIDEND INFORMATION**

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 11, 2000, there were 10,404 holders of record of TSYS common stock, some of whom are holders in nominee name for the benefit of different shareholders.

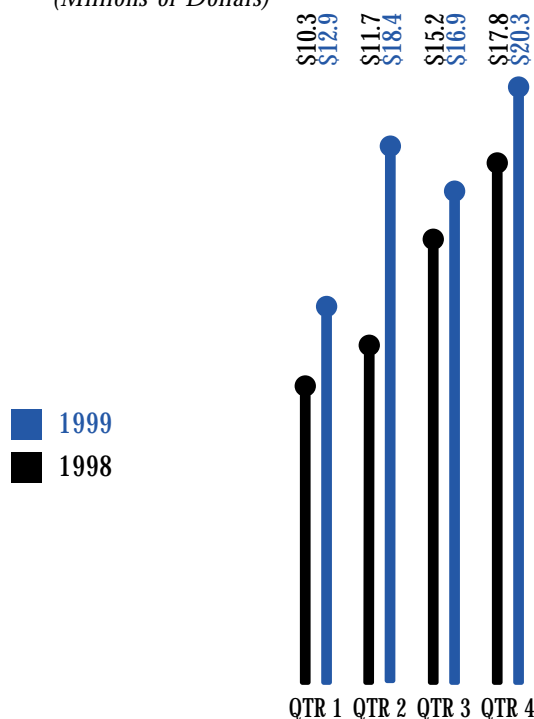
The fourth quarter dividend of \$.01 per share was declared on December 13, 1999, and was paid January 3, 2000, to shareholders of record on December 23, 1999. Total dividends declared in 1999 and in 1998 amounted to \$7.8 million and \$7.3 million, respectively. It is the present intention of the Board 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, 1999 and 1998.*

REVENUES  
(Millions of Dollars)



NET INCOME  
(Millions of Dollars)



(in thousands except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999 Revenues . . . . .	\$ 115,311	136,992	137,827	143,796
Operating income . . . . .	19,242	27,636	23,881	29,860
Net income . . . . .	12,949	18,436	16,934	20,274
Basic earnings per share . . . . .	.07	.09	.09	.10
Diluted earnings per share . . . . .	.07	.09	.09	.10
Cash dividends declared per share . . . . .	.01	.01	.01	.01
Stock prices:				
High . . . . .	26 <sup>1</sup> / <sub>4</sub>	20 <sup>7</sup> / <sub>8</sub>	19 <sup>5</sup> / <sub>8</sub>	19
Low . . . . .	18 <sup>1</sup> / <sub>4</sub>	17 <sup>9</sup> / <sub>16</sub>	14 <sup>1</sup> / <sub>8</sub>	15
1998 Revenues . . . . .	\$ 96,318	91,469	99,402	109,005
Operating income . . . . .	14,580	16,433	22,139	26,191
Net income . . . . .	10,250	11,650	15,172	17,759
Basic earnings per share . . . . .	.05	.06	.08	.09
Diluted earnings per share . . . . .	.05	.06	.08	.09
Cash dividends declared per share . . . . .	.008	.01	.01	.01
Stock prices:				
High . . . . .	21 <sup>7</sup> / <sub>16</sub>	23 <sup>15</sup> / <sub>16</sub>	21 <sup>7</sup> / <sub>16</sub>	24 <sup>3</sup> / <sub>16</sub>
Low . . . . .	15	18 <sup>7</sup> / <sub>16</sub>	14 <sup>13</sup> / <sub>16</sub>	14 <sup>7</sup> / <sub>16</sub>

**BOARD OF DIRECTORS**



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King & Spalding



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Manager  
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Chairman of the Board &  
Chief Executive Officer  
Synovus Financial Corp.



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Bradley & Hatcher



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J. Mack Robinson College  
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Chairman of the Board  
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Columbus Bank and Trust Company  
Synovus Financial Corp.



**Philip W. Tomlinson**  
President  
Total System Services, Inc.



**William B. Turner**  
Chairman of the Executive Committee  
Columbus Bank and Trust Company  
Synovus Financial Corp.  
Advisory Director  
W.C. Bradley Co.



**Richard W. Ussery**  
Chairman of the Board &  
Chief Executive Officer  
Total System Services, Inc.



**George C. Woodruff, Jr.\***  
Real Estate Developer



**James D. Yancey**  
Chairman of the Board  
Columbus Bank and Trust Company  
President & Chief Operating Officer  
Synovus Financial Corp.



**Rebecca K. Yarbrough**  
Private Investor

**\*Directors Emeritus**

**MANAGEMENT**

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

**Philip W. Tomlinson**  
*President*

**William A. Pruett**  
*Executive Vice President*

**M. Troy Woods**  
*Executive Vice President*

**James H. Blanchard**  
*Chairman of the Executive  
 Committee*

**James B. Lipham**  
*Executive Vice President &  
 Chief Financial Officer*

**Kenneth L. Tye**  
*Executive Vice President &  
 Chief Information Officer*

**G. Sanders Griffith, III**  
*General Counsel & Secretary*

**SENIOR VICE PRESIDENTS**

**Ronald L. Barnes**  
**Connie C. Dudley**  
**Stephen W. Humber**  
**William T. Hunt**

**Matthew S. Jacobs**  
**Colleen W. Kynard**  
**W. Walter Miller, Jr.**

**Stanley H. Pipes, Jr.**  
**Mary M. Stewart**  
**Dorenda K. Weaver**

**TSYS TOTAL SOLUTIONS, INC.**

**Clifford B. Mason**  
*President*

**COLUMBUS PRODUCTIONS, INC.**

**Allen W. Layfield**  
*President*

**SHAREHOLDER INFORMATION****INVESTOR RELATIONS**

Analysts, investors and others who want financial information should contact:

Patrick A. Reynolds  
 Director of Investor Relations  
 P.O. Box 120, Columbus, Georgia 31902-0120  
 (706) 649-5220

**SHAREHOLDER SERVICES**

Shareholders who wish to change the name, address, or ownership of stock; to report lost certificates; or to consolidate accounts, should contact the TSYS transfer agent at (800) 503-8903, or write:

State Street Bank & Trust Company  
 C/O EquiServe Limited Partnership  
 P.O. Box 8200  
 Boston, MA 02266-8200

**DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN**

The Total System Services, Inc. Dividend Reinvestment and Direct Stock Purchase plan provides a comprehensive package of services designed to make investing in TSYS stock easy, convenient and more affordable. If you are not a TSYS shareholder, you can join the plan by making an initial investment of at least \$250. You can purchase additional shares by investing between a minimum of \$50 at any one time and a maximum of \$250,000 in total per calendar year. For an enrollment package, please contact our automated request line at (800) 553-0292.

**INDEPENDENT AUDITORS**

**KPMG LLP**  
 Atlanta, Georgia

**FORM 10-K**

A copy of the TSYS 1999 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, will be available after March 31, 2000, at no charge, to any TSYS shareholder. Requests should be made in writing to:

Patrick A. Reynolds  
 Director of Investor Relations  
 P.O. Box 120, Columbus, Georgia 31902-0120

**ANNUAL MEETING**

The Annual Meeting of Shareholders will be held at 9:30 a.m. EST, April 13, 2000, in the auditorium of the TSYS Riverfront Campus in Columbus, Georgia.



**CORPORATE HEADQUARTERS**

1600 First Avenue  
P.O. Box 2567  
Columbus, Georgia  
31902-2567  
[www.totalsystem.com](http://www.totalsystem.com)

**STOCK TRADING INFORMATION**

Total System Services, Inc. common stock is traded on the New York Stock Exchange (NYSE) under the symbol "TSS." Price and volume information appear under the abbreviation "TotlSysSvc" in NYSE daily stock quotation listings.