

2003 FINANCIAL APPENDIX



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SELECTED FINANCIAL DATA

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. The historical trends in TSYS' results of operations and financial position over the last five years are presented below. Revenues before reimbursable items and net income have grown over the last five years at compounded annual growth rates of 15.9% and 20.8%, respectively. The balance sheet data also reflect the continued strong financial position of TSYS as evidenced by the current ratio of 1.9:1 at December 31, 2003, and increased shareholders' equity.

<i>(in thousands except per share data)</i>	Years Ended December 31,				
	2003	2002	2001	2000	1999
Income Statement Data:					
Revenues:					
Electronic payment processing services	\$ 707,816	617,876	572,412	511,663	451,227
Other services	120,485	106,087	86,816	95,350	77,086
Revenues before reimbursable items	828,301	723,963	659,228	607,013	528,313
Reimbursable items	225,165	231,170	233,093	238,081	213,322
Total revenues	1,053,466	955,133	892,321	845,094	741,635
Expenses:					
Salaries and other personnel expense	326,568	300,240	267,792	240,658	207,618
Net occupancy and equipment expense	205,845	174,958	171,680	163,953	151,964
Other operating expenses	105,334	91,168	81,961	87,446	80,439
(Gain) loss on disposal of equipment, net	(25)	(75)	92	1,422	(798)
Expenses before reimbursable items	637,722	566,291	521,525	493,479	439,223
Reimbursable items	225,165	231,170	233,093	238,081	213,322
Total expenses	862,887	797,461	754,618	731,560	652,545
Operating income	190,579	157,672	137,703	113,534	89,090
Nonoperating income (expense)	3,790	5,614	2,858	5,116	2,159
Income before income taxes, minority interest and equity in income of joint ventures	194,369	163,286	140,561	118,650	91,249
Income taxes	70,868	57,908	53,891	46,601	34,983
Minority interest in subsidiary's net income	(338)	(154)	(76)	(99)	---
Equity in income of joint ventures	17,810	20,581	17,824	15,586	12,327
Net income	\$ 140,973	125,805	104,418	87,536	68,593
Basic earnings per share	\$.72	.64	.54	.45	.35
Diluted earnings per share	\$.71	.64	.53	.45	.35
Cash dividends declared per share	\$.078	.068	.060	0.48	.040
Weighted average common shares outstanding	196,830	197,017	194,773	194,785	194,913
Weighted average common and common equivalent shares outstanding	197,438	197,497	195,604	195,265	195,479
Balance Sheet Data:					
<i>(in thousands)</i>					
At December 31,					
	2003	2002	2001	2000	1999
Total assets	\$1,001,236	779,493	656,554	604,007	463,622
Working capital	127,392	148,623	99,620	63,180	68,553
Obligations under capital leases and software arrangements (excluding current portion)	29,748	67	135	164	204
Shareholders' equity	732,534	602,206	507,330	414,016	334,292

FINANCIAL OVERVIEW

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

Due to the somewhat seasonal nature of the credit card industry, TSYS' revenues and results of operations have generally increased in the fourth quarter of each year because of increased transaction and authorization volumes during the traditional holiday shopping season. Furthermore, growth or declines in card portfolios of existing clients, the conversion of cardholder accounts of new clients to the Company's processing platforms, and the loss of cardholder accounts impact the results of operations from period to period. Another factor which may affect TSYS' revenues and results of operations from time to time, is the sale by a client of its business, its card portfolio or a segment of its accounts to a party which processes cardholder accounts internally or uses another third-party processor. Consolidation in either the financial services or retail industries, a change in the economic environment in the retail sector, or a change in the mix of payments between cash and cards could favorably or unfavorably impact TSYS' financial position, results of operations and cash flows in the future.

A significant amount of the Company's revenues is derived from long-term contracts with large clients, including certain major customers. Processing contracts with large clients, representing a significant portion of the Company's total revenues, generally provide for discounts on certain services based on the size and activity of clients' portfolios. Therefore, electronic payment processing revenues and the related margins are influenced by the client mix relative to the size of client card portfolios, as well as the number and activity of individual cardholder accounts processed for each client. Consolidation among financial institutions has resulted in an increasingly concentrated client base, which results in a changing client mix toward larger clients and increasing pressure on the Company's net profit margins.

Based upon available market share data that includes cards processed in-house, the Company believes it has a 20% market share of the domestic consumer card processing arena; an 83% share of the Visa and MasterCard domestic commercial card processing market; a 15% share of the domestic retail card processing market; and a 4%

market share of the U.S. off-line debit processing market at the end of 2003. The Company believes it has significant growth opportunities as in-house processors and issuers processed by competitors realize the potential for reduced costs and better portfolio performance offered through TSYS' processing solutions.

The Company provides services to its clients including processing consumer, retail, commercial, debit and stored value cards, as well as student loan account processing. Consumer cards include Visa and MasterCard credit cards as well as American Express cards. Retail cards include private label and gift cards. Commercial cards include purchasing cards, corporate cards and fleet cards for employees. Government services/EBT accounts on file consist mainly of student loan processing accounts. Debit/Stored value accounts include debit cards and stored value cards. The table on page F-11 summarizes TSYS' accounts on file (AOF) data by type of account at December 31, 2003, 2002 and 2001.

Significant highlights occurring during 2003 include:

- Total revenues exceeded \$1 billion for the first time in the Company's history.
- Operating income increased 20.9% in 2003 as compared to 2002.
- Net income increased 12.1% in 2003 as compared to 2002.
- TSYS' synthetic lease on the corporate campus was terminated. The Company purchased the facility for \$93.5 million through a combination of cash on hand and a line of credit.
- TSYS cash generated from operating activities increased 34.8% in 2003 as compared to 2002.
- Accounts on file processed on TSYS' systems increased 11.4% to 273.9 million.
- TSYS' board of directors approved a stock repurchase plan that allows the Company to purchase up to 2 million shares between April 2003 and April 2005.

The major industry development occurring in 2003 and the early part of 2004 remains consolidation among financial institutions, particularly in the area of credit card operations. In 2003, Sears' credit card business was sold to Citigroup, Inc.; Circuit City sold its Visa and MasterCard portfolio to Fleet Financial, who in turn announced a merger with Bank of America; J.P. Morgan & Chase Co. and Bank One announced a merger; and Circuit City agreed to sell its private label card business to Bank One. TSYS' management continually monitors the situation with each of these portfolios. The impact of these transactions on the financial position, results of operations and cash flows of TSYS cannot be determined at this time.

FINANCIAL REVIEW

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

Critical Accounting Policies and Estimates

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

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

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

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

ACCOUNTS RECEIVABLE: Accounts receivable balances are stated net of allowances for doubtful accounts and billing adjustments of \$9.8 million and \$8.0 million at December 31, 2003 and December 31, 2002, respectively. The allowance represents 7.5% and 6.2% of total accounts receivable at December 31, 2003 and December 31, 2002,

respectively. TSYS' client base mainly consists of financial institutions and other card issuers such as retailers. A substantial amount of the Company's account receivable balances are current, and the average number of days sales outstanding in accounts receivable at December 31, 2003 was 42 days. Because TSYS invoices clients for services monthly in arrears, accounts receivable includes one month of service billings not yet invoiced.

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

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

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

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

On March 3, 2003, the Company announced that Bank One selected TSYS to upgrade its credit card processing. Under the long-term software licensing and services agreement, TSYS will provide electronic payment processing of Bank

One's credit card accounts for at least two years beginning in 2004 (excluding statement and card production services), and then TSYS will license a modified version of its TS2 consumer and commercial card software to Bank One under a perpetual license with a six year payment term. The Company uses the percentage-of-completion accounting method for its agreement with Bank One.

The Company recognizes software license revenue in accordance with Statement of Position No. (SOP) 97-2, "Software Revenue Recognition," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions." For software licenses for which any services rendered are not considered essential to the functionality of the software, revenue is recognized upon delivery of the software, provided (1) there is evidence of an arrangement, (2) collection of the fee is considered probable, (3) the fee is fixed or determinable, and (4) vendor specific objective evidence (VSOE) exists to allocate revenue to the undelivered elements of the arrangement.

When services are considered essential to the functionality of the software licensed, revenues are recognized over the period that such services will be performed using the percentage-of-completion method in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Progress during the period services performed is measured by the percentage of costs incurred to date to estimated total costs for each arrangement. Provisions for estimated losses on incomplete contracts are made in the period in which such losses are determined. For license arrangements in which the fee is not fixed or determinable, the license revenue is recognized as payments become due.

The Company's other service revenues are derived from recovery collections work, bankruptcy process management, legal account management, skip tracing, commercial printing activities, targeted loyalty programs, and customer relationship management services, such as call center activities for card activation, balance transfer requests, customer service and collection. The contract terms for these services are generally shorter in nature as compared with the Company's long-term processing contracts. Revenue is recognized on these other services as the services are performed either on a per unit or a fixed price basis. The Company uses the percentage-of-completion method of accounting for its fixed price contracts, and progress is measured by the percentage of costs incurred to date to estimated total costs for each arrangement. Provisions for estimated losses on incomplete contracts are made in the period in which such losses are determined.

CONTRACT ACQUISITION COSTS: The Company capitalizes contract acquisition costs related to signing or renewing long-term contracts. These costs, primarily consisting of cash payments for rights to provide processing services and

internal conversion costs, are amortized using the straight-line method over the contract term beginning when the client's cardholder accounts are converted and producing revenues. All costs incurred prior to a signed agreement are expensed as incurred.

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

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

SOFTWARE DEVELOPMENT COSTS: In accordance with Financial Accounting Standards Board (FASB) Statement No. 86, "Computer Software to be Sold, Leased or Otherwise Marketed," software development costs are capitalized once technological feasibility of the software product has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed a detailed program design and has determined that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is generally available to clients. The Company evaluates the unamortized capitalized costs of software development as compared to the net realizable value of the software product which is determined by expected undiscounted net operating cash flows. The amount by which the unamortized software development costs exceed the net realizable value is written off in the period that such determination is made. Software development costs are amortized using the greater of (1) the straight-line method over its estimated useful life, which ranges from three to ten years or (2) the ratio of current revenues to total anticipated revenue over its useful life.

The Company also develops software that is used internally. These software development costs are capitalized based upon Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Internal-use software development costs are capitalized once (a) preliminary project stage is completed, (b) management authorizes and commits to funding a computer software project, and (c) it is probable that the

project will be completed, and the software will be used to perform the function intended. Costs incurred prior to meeting these qualifications are expensed as incurred. Capitalization of costs ceases when the project is substantially complete and ready for its intended use. Internal-use software development costs are amortized using an estimated useful life of three to seven years. Software development costs may become impaired in situations where development efforts are abandoned due to the viability of the planned project becoming doubtful or due to technological obsolescence of the planned software product.

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

SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company adopted SFAS No. 142 January 1, 2002.

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

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

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES: In accordance with SFAS No.144, the Company reviews long-lived assets, such as property and equipment and intangibles subject to amortization, such as contract acquisition costs and certain computer software, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted operating cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Related Party Transactions

The Company provides electronic payment processing and other services to its parent company, Synovus Financial Corp. (Synovus), and its affiliates, and to its joint ventures, Vital Processing Services L.L.C. (Vital) and Total System Services de México, S.A. de C.V (TSYS de México). The services are performed under contracts that are similar to its contracts with other customers. The Company believes the terms and conditions of transactions between the Company and these related parties are comparable to those which could have been obtained in transactions with unaffiliated parties. The Company's margins with respect to related party transactions are comparable to margins recognized in transactions with unrelated third parties. The amounts related to these transactions are disclosed on the face of TSYS' consolidated financial statements.

At December 31, 2003, Columbus Bank and Trust Company (CB&T), a wholly owned subsidiary of Synovus, owned 159,630,980 shares (81.1%) of TSYS' common stock.

Vital Restricted Units

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

In connection with the termination of Vital's stock-based compensation plans, TSYS, with approval from the Compensation Committee, repurchased the Vital restricted units from the Company's six key executives in June 2003.

The purchase price for the restricted shares of \$3.85 per unit was based upon an independent, third party valuation of Vital conducted as of May 31, 2003. The Company recognized compensation expense throughout the entire vesting period. Semiannually, the Company received an independent third party valuation of Vital throughout the vesting period and adjusted compensation expense accordingly. Through December 2002, the Company recognized \$3.0 million as compensation expense. After adjusting for the updated valuation in 2003, TSYS recognized \$80,000 as compensation expense in 2003.

Lease Guarantee

To assist Vital in leasing its corporate facility, the Company and Visa U.S.A. (Visa) are guarantors, jointly and severally, for the lease payments on Vital's Tempe facility. The lease on the facility expires in July 2007. The total future minimum lease payments remaining at December 31, 2003 are \$5.2 million. If Vital fails to perform its obligations with regard to the lease, TSYS and Visa would be required to perform in the same manner and to same extent as is required by Vital.

Line of Credit

On June 30, 2003, TSYS obtained a \$45.0 million long-term line of credit from a banking affiliate of Synovus. The line is an automatic draw-down facility. The interest rate for the line of credit is the London Interbank Offered Rate (LIBOR) plus 150 basis points. In addition, there is a charge of 15 basis points on any funds unused. The line of credit is unsecured debt and includes covenants requiring the Company to maintain certain minimum financial ratios. At December 31, 2003, TSYS did not have an outstanding balance on the line of credit and was in compliance with all covenants. As the LIBOR rate changes, TSYS will be subject to interest rate risk.

In addition, TSYS maintains another 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 2003, 2002 or 2001.

Acquisitions

Upon the recommendation of a special committee of TSYS directors on October 15, 2002, the board of directors of TSYS approved the purchase of ProCard, Inc. (ProCard) from Synovus for \$30.0 million in cash. ProCard is a provider of software and Internet tools designed to assist organizations with the management of purchasing, travel and fleet card programs. ProCard's software solutions have been integrated into TSYS' processing solutions. On November 1, 2002, TSYS completed the ProCard acquisition.

Because the acquisition of ProCard was a transaction between entities under common control, the Company has reflected the acquisition at historical cost in accordance with SFAS No. 141. In accordance with the provisions of

SFAS No. 141, TSYS has restated its consolidated financial statements for periods prior to TSYS' acquisition of ProCard that Synovus controlled both ProCard and TSYS to include the financial position, results of operations and cash flows of ProCard since May 2000.

Effective January 1, 2002, TSYS acquired TSYS Total Debt Management, Inc. (TDM) from Synovus in exchange for 2,175,000 newly issued shares of TSYS' common stock with a market value of \$43.5 million at the date of acquisition. Prior to the acquisition, TDM operated as a wholly owned subsidiary of Synovus, providing third-party collection services. TDM operates as a separate, wholly owned subsidiary of TSYS. Because the acquisition of TDM was a transaction between entities under common control, the Company has reflected the acquisition at historical cost in accordance with SFAS No. 141 and has reflected the results of operations of TDM in the Company's consolidated financial statements beginning January 1, 2002. The Company did not restate periods prior to 2002 because such restatement was not significant. Refer to Note 12 for more information on TSYS acquisitions.

Balance Sheets

TSYS maintains deposit accounts with CB&T, the majority of which earn interest and on which TSYS receives market rates of interest. Included in cash and cash equivalents are deposit balances with CB&T of \$80.8 million and \$84.5 million at December 31, 2003 and 2002, respectively.

The Company maintains restricted cash balances on deposit with CB&T. The restricted cash balances relate to cash collected on behalf of clients which are held in escrow. At December 31, 2003 and 2002, the Company had restricted cash balances of \$7.6 million and \$4.0 million, respectively, on deposit with CB&T.

TSYS paid cash dividends to CB&T in the amount of approximately \$12.0 million, \$10.3 million and \$9.1 million in 2003, 2002 and 2001, respectively. TSYS received cash dividends from its equity method joint ventures of approximately \$5.3 million, \$17.9 million and \$7.1 million in 2003, 2002 and 2001, respectively. Additionally, as part of the modification to the joint venture agreement in 2001, TSYS received a capital distribution of approximately \$3.3 million from TSYS de México.

Through its related party transactions, TSYS generates accounts receivable and liability accounts with Synovus, CB&T and its affiliates, Vital and TSYS de México. At December 31, 2003 and 2002, the Company had accounts receivable balances of \$1.1 million and \$1.6 million, respectively, associated with related parties. At December 31, 2003 and 2002, the Company had accounts payable balances of \$1.0 million and \$76,188, respectively, associated with related parties. At December 31, 2003 and 2002, the Company had an accrued current liability to related parties of \$135,710 and \$87,461, respectively.

Statements of Income

The Company provides electronic payment processing services and other services for Synovus, CB&T and its affiliates, as well as its equity method joint ventures, TSYS de México and Vital.

The table below details revenues derived from affiliated companies for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Electronic payment processing services:			
Vital	\$14,373,892	15,116,769	15,069,633
CB&T	3,874,441	3,425,785	3,274,862
Synovus and affiliates	451,333	488,148	433,223
TSYS de México	29,893	44,788	15,961,010
Total electronic payment processing services	\$18,729,559	19,075,490	34,738,728
Other services:			
CB&T	\$ 5,677,176	5,575,853	5,789,004
Synovus and affiliates	695,014	959,250	641,701
Vital	48,313	28,121	22,447
Total other services	\$ 6,420,503	6,563,224	6,453,152
Reimbursable items:			
Vital	\$ 7,716,703	8,464,318	7,569,155
CB&T	1,200,640	1,173,370	1,065,103
Synovus and affiliates	84,281	53,781	243,582
TSYS de México	---	237,519	958,400
Total reimbursable items	\$ 9,001,624	9,928,988	9,836,240

The Company and Synovus and its affiliates are parties to various agreements to provide certain services between one another. The table below details expenses associated with affiliated companies for the years ended December 31, 2003, 2002 and 2001 by expense category:

	2003	2002	2001
Salaries and other personnel expense:			
Trustee fees paid to Synovus	\$ 576,498	525,189	558,303
Total salaries and other personnel expense	\$ 576,498	525,189	558,303
Net occupancy and equipment expense:			
Rent paid to TSYS by CB&T	(\$ 39,405)	(39,405)	(39,405)
Rent paid to CB&T by TSYS	318,940	377,285	211,878
Rent paid to TSYS by Synovus	(684,922)	(537,140)	(454,926)
Total net occupancy and equipment expense	(\$ 405,387)	(199,260)	(282,453)
Other operating expenses:			
Management fees paid to Synovus	\$8,038,296	8,078,484	8,606,544
Management fees paid by Synovus	---	---	(1,497,000)
Processing support fees paid to TSYS de México	590,649	916,538	300,587
Service fees paid to Vital	---	325,000	---
Data processing service fees paid to TSYS by Synovus	(2,075)	(24,900)	(24,900)
Data processing service fees paid to Vital	123,381	123,381	327,240
Data processing service fees paid to TSYS de México	23,316	---	---
Lockbox fees paid to Synovus	---	---	100,697
Escrow account fees paid to Synovus Trust	2,010	---	---
Banking service fees paid by TSYS to CB&T	124,376	43,479	46,345
Total other operating expenses	\$8,899,953	9,461,982	7,859,513

Nonoperating Income

	2003	2002	2001
Interest income from CB&T	\$582,056	1,082,405	2,305,617
Interest expense paid to CB&T	29,257	---	---

Stock Options

Certain officers of TSYS and other TSYS employees participate in the Synovus Incentive Plans. Nonqualified options to acquire Synovus common stock were granted in 2003, 2002 and 2001 as follows:

	2003	2002	2001
Number of shares under options	436,413	150,548	3,077,223
Weighted average exercise price	\$18.91	26.56	28.60

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

In 2001, Synovus granted performance-accelerated stock options to certain key TSYS executives. The exercise price per share is equal to the fair market value at the date of grant. The options are subject to a seven-year cliff vesting, but the exercisability may be accelerated if the market price of Synovus common stock exceeds \$40, \$45 and \$50. Refer to Note 6 for more information on stock options.

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

Off-Balance Sheet Arrangements

OPERATING LEASES: As a method of funding its operations, TSYS employs noncancelable operating leases for computer equipment, software and facilities. These leases allow the Company to provide the latest technology while avoiding the risk of ownership because of potential rapid technological obsolescence. Neither the assets nor obligations related to these leases are included on the balance sheet. Refer to Note 9 for further information on operating lease commitments. One of the Company's most significant leases was its synthetic lease for its corporate campus.

SYNTHETIC LEASE: In 1997, the Company entered into an operating lease agreement with a special purpose entity (SPE) for the Company's corporate campus. The business purpose of the SPE was to provide a means of financing the Company's corporate campus. The assets and liabilities of the SPE consisted solely of the cost of the building and loans from a consortium of banks.

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

On June 30, 2003, the Company terminated the operating lease agreement and purchased the corporate campus for \$93.5 million with a combination of \$73.3 million in cash and funds from a long-term line of credit through a banking affiliate of Synovus, which is discussed in the Related Party Transactions on page F-6.

Interest income, net, derived from the investment of available cash balances will be negatively impacted as a result of purchasing the campus.

At December 31, 2003, the Company did not have any synthetic lease agreements.

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

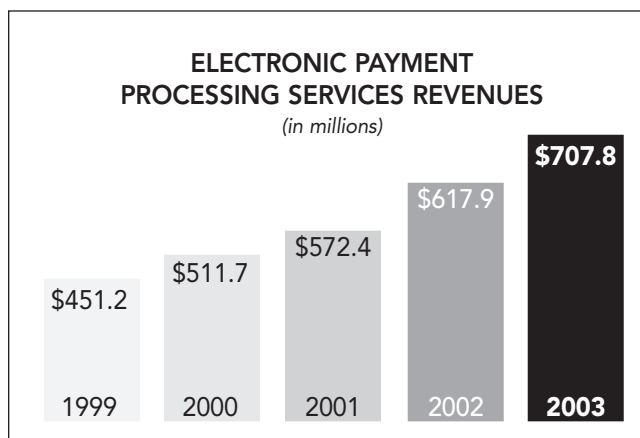
	Percentage of Total Revenues Years Ended December 31,			Percent Change in Dollar Amounts	
	2003	2002	2001	2003 vs 2002	2002 vs 2001
Revenues:					
Electronic payment processing services	67.2%	64.7	64.2	14.6	7.9
Other services	11.4	11.1	9.7	13.6	22.2
Revenues before reimbursable items	78.6	75.8	73.9	14.4	9.8
Reimbursable items	21.4	24.2	26.1	(2.6)	(0.8)
Total revenues	100.0	100.0	100.0	10.3	7.0
Expenses:					
Salaries and other personnel expense	31.0	31.4	30.0	8.8	12.1
Net occupancy and equipment expense	19.5	18.3	19.2	17.7	1.9
Other operating expenses	10.0	9.6	9.3	15.5	11.2
(Gain) loss on disposal of equipment, net	(0.0)	(0.0)	0.0	nm	nm
Expenses before reimbursable items	60.5	59.3	58.5	12.6	8.6
Reimbursable items	21.4	24.2	26.1	(2.6)	(0.8)
Total operating expenses	81.9	83.5	84.6	8.2	5.7
Operating income	18.1	16.5	15.4	20.9	14.5
Nonoperating income (expense)	0.4	0.6	0.3	(32.5)	96.4
Income before income taxes, minority interest and equity in income of joint ventures	18.5	17.1	15.7	19.0	16.2
Income taxes	6.8	6.1	6.0	22.4	7.5
Minority interest in subsidiary's net income	(0.0)	(0.0)	(0.0)	nm	nm
Equity in income of joint ventures	1.7	2.2	2.0	(13.5)	15.5
Net income	13.4%	13.2	11.7	12.1	20.5

nm = not meaningful

Results of Operations

Revenues

Total revenues increased 10.3%, or \$98.3 million, for the year ended December 31, 2003, compared to the year ended December 31, 2002, which increased 7.0%, or \$62.8 million, compared to the year ended December 31, 2001. The increases in revenues include increases of \$6.4 million and \$2.4 million related to the effects of currency translation of its foreign-based subsidiaries and branches. Excluding reimbursable items, revenues increased 14.4%, or \$104.3 million, for the year ended December 31, 2003, compared to the year ended December 31, 2002, which increased 9.8%, or \$64.7 million, compared to the year ended December 31, 2001.



Accounts on File (AOF) Tables *(in millions)*

AOF	Percent Change				
	2003	2002	2001	2003 vs 2002	2002 vs 2001
At December 31,	273.9	245.9	218.5	11.4%	12.5%
Average	262.6	232.1	206.1	13.1	12.6

AOF by Portfolio Type

	Percent Change							
	2003	%	2002	%	2001	%	2003 vs 2002	2002 vs 2001
Consumer	143.5	52%	137.0	56%	123.0	56%	4.5%	11.3%
Retail	85.5	31	77.3	31	73.5	34	10.7	5.2
Commercial	21.5	8	19.8	8	17.8	8	8.4	11.5
Government Services/EBT	13.8	5	5.5	2	---	---	148.5	nm
Debit/Stored Value	9.6	4	6.3	3	4.2	2	53.2	48.5
Total	273.9	100%	245.9	100%	218.5	100%	11.4	12.5

AOF by Geographic Area

	Percent Change							
	2003	%	2002	%	2001	%	2003 vs 2002	2002 vs 2001
Domestic	229.8	84%	215.4	88%	190.4	87%	6.7%	13.1%
International	44.1	16	30.5	12	28.1	13	44.8	8.6
Total	273.9	100%	245.9	100%	218.5	100%	11.4	12.5

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

Activity in AOF

	2002 to 2003	2001 to 2002	2000 to 2001
Beginning balance:	245.9	218.5	195.2
Internal growth of existing clients	25.1	22.9	24.2
New clients	19.9	13.2	16.0
Purges/Sales	(13.2)	(8.7)	(11.8)
Deconversions	(3.8)	---	(5.1)
Ending balance:	273.9	245.9	218.5

nm = not meaningful

Electronic Payment Processing Services

Electronic payment processing revenues are generated primarily from charges based on the number of accounts on file, transactions and authorizations processed, statements mailed, credit bureau requests, credit cards embossed and mailed, and other processing services for cardholder accounts on file. Cardholder accounts on file include active and inactive consumer credit, retail, debit, stored value and commercial card accounts. Due to the number of cardholder accounts processed by TSYS and the expanding use of cards, as well as increases in the scope of services offered to clients, revenues relating to electronic payment processing services have continued to grow.

Electronic payment processing services revenues increased 14.6%, or \$89.9 million, for the year ended December 31, 2003, compared to the year ended December 31, 2002, which increased 7.9%, or \$45.5 million, compared to the year ended December 31, 2001.

On March 3, 2003, the Company announced that Bank One had selected TSYS to upgrade its credit card processing. Under the long-term software licensing and

services agreement, TSYS will provide electronic payment processing services to Bank One's credit card accounts for at least two years starting in 2004 (excluding statement and card production services), and then TSYS will license a modified version of its TS2 consumer and commercial software to Bank One under a perpetual license with a six year payment term. The Company uses the percentage-of-completion accounting method for its agreement with Bank One and recognizes revenues in proportion to costs incurred. TSYS' revenues from Bank One were approximately 3.3% of total revenues in 2003. The 2004 earnings per share (EPS) contribution from the Bank One agreement is expected to range from \$0.03 to \$0.04. Beginning in 2005 and continuing thereafter through the payment term of the license, the EPS contribution of the Bank One agreement is expected to exceed \$0.04 on an annual basis.

On January 14, 2004, J.P. Morgan Chase & Co. (JPM) and Bank One announced that they have agreed to merge. Based on discussions with executive management of Bank One after the recent merger announcement by JPM and Bank One, TSYS and Bank One are proceeding with their efforts to complete the Bank One conversion according to

schedule. However, there are no assurances that the Bank One conversion will be completed on schedule or that Bank One and JPM may not elect to terminate the Bank One agreement with TSYS prior to the conversion. The impact of the transaction between Bank One and JPM on the financial position, results of operations and cash flows of TSYS cannot be determined at this time.

In October 2003, Circuit City Stores, Inc. announced that it had sold its Visa and MasterCard portfolio, which includes credit card receivables and related cash reserves to FleetBoston Financial. On January 20, 2004, Circuit City announced an agreement to sell its private-label credit card business to Bank One. TSYS has a long-term agreement with Circuit City Stores until April 2006. TSYS' revenues from Circuit City were approximately 3% of total revenues in 2003. The impact of the transactions between Circuit City and FleetBoston Financial and Circuit City and Bank One on the financial position, results of operations and cash flows of TSYS cannot be determined at this time.

In July 2003, Sears and Citigroup announced an agreement for the sale by Sears to Citigroup of the Sears credit card and financial services businesses. Sears and Citigroup are both clients of TSYS, and TSYS considers its relationships with both companies to be very positive.

TSYS and Sears are parties to a 10-year agreement, which was renewed in January of 2000, under which TSYS provides transaction processing for more than 80.7 million Sears accounts. During the year ended December 31, 2003, TSYS' revenues from the TSYS/Sears agreement represented 6.2% of TSYS' consolidated revenues. The agreement includes provisions for termination for convenience prior to its expiration upon the payment of a termination fee. The TSYS/Sears agreement also grants to Sears the one-time right to market test TSYS' pricing and functionality after May 1, 2004. Potential results of such market test, in which TSYS will be a participant, include continuation of the processing agreement under its existing terms, continuation of the processing agreement under mutually agreed modified terms, or termination of the processing agreement after May 1, 2006 without a termination fee. The impact of the transaction between Sears and Citigroup on the financial position, results of operations and cash flows of TSYS cannot be determined at this time.

TSYS provides processing services to its clients worldwide and plans to continue to expand its service offerings internationally in the future. On August 6, 2002, TSYS announced the signing of a 10-year processing agreement with CIBC to process more than 5 million Visa accounts. The portfolio was converted in early 2003 to TS2. In a separate agreement, TSYS announced in January 2002 that it would process the new "entourage" line of American Express products for CIBC, including Canada's first nationwide chip card. TSYS has supported CIBC's commercial card product since 1994.

Total revenues from clients based in Mexico was \$31.4 million for 2003, a 7.5% increase over the \$29.2 million in 2002, which was a 75.2% increase over the \$16.9 million in 2001. The increase in revenue in 2002 was attributable to increased accounts on file growth of approximately 29.3% and the restructuring of the joint venture agreement.

During 2003, the Company's largest client in Mexico notified TSYS that the client intends to utilize its internal global platform and deconverted in the fourth quarter of 2003. This client represented approximately 70% of TSYS' revenues from Mexico. Another Mexican client notified the Company of its intentions to deconvert in mid-2004. This client represented approximately 21% of TSYS' revenues from Mexico prior to the deconversions. As a result, management expects that electronic payment processing revenues for 2004 from Mexico will decrease significantly when compared to electronic payment processing revenues from Mexico for 2003 and 2002.

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

For the years ended December 31, 2003, 2002 and 2001, value added products and services represented 14.1%, 12.7% and 11.7% of total revenues, respectively. Revenues from these products and services, which include some reimbursable items paid to third-party vendors, increased 22.1%, or \$26.8 million, for 2003 compared to 2002, and increased 16.3%, or \$17.0 million, for 2002 compared to 2001.

Revenues associated with ProCard are included in electronic payment processing services. These services include providing customized, Internet, Intranet and client/server software solutions for commercial card management programs. Revenues from these services increased 23.0% to \$22.2 million in 2003, compared to \$18.0 million in 2002, which increased 17.8% compared to \$15.3 million in 2001.

Other Services

Revenues associated with TSYS' wholly owned subsidiaries, Columbus Depot Equipment Company (CDEC), Columbus Productions, Inc. (CPI), TSYS Total Debt Management, Inc. (TDM) and Enhancement Services Corporation (ESC) are included in other service revenues. These services include mail and correspondence processing services, teleservicing, data documentation capabilities, offset printing, client service, collections and account solicitation services. CDEC provides TSYS clients with an option to lease certain equipment necessary for online communications and for the use of TSYS applications. CPI provides full-service commercial printing services to TSYS clients and others. TDM provides recovery collections work, bankruptcy process management, legal account management and skip tracing. ESC provides targeted loyalty consulting and travel, as well as gift card and merchandise, reward programs to more than 40 national and regional financial institutions in the United States.

In April 2003, TSYS completed the acquisition of Enhancement Services Corporation (ESC) for \$36.0 million in cash. For the year ended December 31, 2003, TSYS' revenues include \$11.9 million related to ESC's revenues and are included in other services. The Company believes the acquisition of ESC enhances TSYS processing services by adding distinct value differentiation for TSYS and its clients.

Revenues from other services increased \$14.4 million, or 13.6%, in 2003, compared to 2002. In 2002, revenues from other services increased \$19.3 million, or 22.2%, compared to 2001. In September 2003, TDM entered into a new debt collection services agreement resulting in TDM's revenues increasing \$18.3 million in 2003 over 2002. The revenues from this new agreement are expected to continue throughout 2004.

Major Customers

A significant amount of the Company's revenues is derived from long-term contracts with large clients, including certain major customers. Bank of America Corporation, a major customer, has a long-term processing agreement with the Company through 2009. Bank of America accounted for approximately 18%, 19% and 18% of total revenues for the years ended December 31, 2003, 2002 and 2001, respectively. The loss of Bank of America, or any other major or significant clients, could have a material adverse effect on the Company's financial position, results of operations and cash flows.

In October 2003, Bank of America announced that it would acquire FleetBoston Financial (Fleet), creating one of the largest financial institutions in the United States. The impact of the transaction between Bank of America and Fleet on the financial position, results of operations and cash flows of TSYS cannot be determined at this time.

The Company has a long-term processing relationship with Providian Financial Corporation (Providian), one of the largest bankcard issuers in the nation. In October 2001, the Company announced it signed a multi-year extension to its long-term credit card-processing agreement with Providian until 2011, which included a cash payment for processing rights of \$12.7 million. Providian accounted for approximately 10%, 13% and 19% of total revenues for the years ended December 31, 2003, 2002 and 2001, respectively. The loss of Providian, or any other major or significant clients, could have a material adverse effect on the Company's financial position, results of operations and cash flows.

The Company works to maintain a large and diverse customer base across various industries. In addition to its two major customers, the Company has other large clients representing a significant portion of its total revenues. The loss of any one of the Company's large clients could have a material adverse effect on the Company's financial position, results of operations and cash flows.

Reimbursable Expenses

As a result of the Financial Accounting Standards Board's (FASB's) Emerging Issues Task Force 01-14 (EITF 01-14), formerly known as Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," the Company has included reimbursements received for out-of-pocket expenses as revenue. Historically, TSYS had not reflected such reimbursements in its consolidated statements of income. The largest reimbursement expense for which TSYS is reimbursed by clients is postage. Reimbursable items decreased \$6.0 million, or 2.6%, in 2003, as compared to 2002. Reimbursable items decreased \$1.9 million, or 0.8%, in 2002, as compared to 2001. The decreases are the result of certain clients decreasing mailing activities, such as the reissuance of cards, and the loss of certain clients.

Operating Expenses

As a percentage of revenues, operating expenses decreased in 2003 to 81.9%, compared to 83.5% and 84.6% for 2002 and 2001, respectively. The principal decreases in operating expenses as a percentage of revenue in 2003 as compared to 2002 resulted from a concerted emphasis on expense control, a focus on improved processes, lower provisions for transaction processing accruals and a reduction in reimbursable items. The principal decreases in operating expenses as a percentage of revenue in 2002 as compared to 2001 resulted from a company-wide emphasis on expense control, a decrease in reimbursable items, reduction in expenses associated with computer equipment and software rentals and a decrease in rent expense on the campus facility. Operating expenses were \$862.9 million in 2003, compared to \$797.5 million in 2002 and \$754.6 million in 2001.

Salaries and other personnel expense increased 8.8% in 2003 over 2002, compared to 12.1% in 2002 over 2001. A significant portion of TSYS' operating expenses relates to salaries and other personnel costs. During 2003, the average number of employees increased to 5,422, compared to 5,267 in 2002 and 4,943 in 2001. The majority of the increase in the number of employees for 2003 compared to 2002 related to the acquisition of ESC and the opening of a programming center in Boise, Idaho. The majority of the increase in the number of employees for 2002 compared to 2001 related to the acquisition of TDM. The change in total employment costs consists of increases of \$16.1 million, \$53.1 million and \$40.3 million in 2003, 2002 and 2001, respectively, associated with the growth in the number of employees, normal salary increases and related employee benefits. These increases were net of \$32.6 million, \$42.9 million and \$22.2 million in 2003, 2002 and 2001, respectively, invested in software development and contract acquisition costs. The increase in 2003 was also offset with a reduction in the accrual for performance-based incentive benefits.

Net occupancy and equipment expense increased 17.7% in 2003 over 2002, compared to 1.9% in 2002 over 2001. Depreciation and amortization expense increased \$17.8 million, or 30.6%, to \$76.1 million for the year ended December 31, 2003, compared to \$58.3 million for the year ended December 31, 2002, which increased \$7.9 million, or 15.6%, from \$50.4 million for the year ended December 31, 2001. Amortization expense of purchased computer software increased \$10.9 million in 2003 as the Company expanded its processing capacity. The Company has certain license agreements requiring increased license fees based upon achieving certain thresholds of processing capacity. Amortization expense of developed software increased \$5.3 million as a result of developed software placed in service during 2002.

Due to rapidly changing technology in computer equipment and software, TSYS' equipment and software needs are fulfilled primarily through operating leases and software licensing arrangements. Equipment and software rental expense was \$85.9 million for the year ended December 31, 2003, an increase of \$10.9 million, or 14.6%, compared to \$74.8 million for the year ended December 31, 2002, a decrease of \$4.2 million, or 5.3%, compared to \$79.0 million for the year ended December 31, 2001. TSYS equipment and software rentals increased in 2003 as a result of expanding processing capacity and converting clients to TS2. Equipment and software rentals decreased in 2002 as TSYS made a concerted effort to improve processing productivity and implement cost controls.

In July 2003, the Company announced plans to build a state-of-the-art £20 million European data center to accommodate future client growth and to prepare for its corporate expansion throughout Europe. The center is scheduled to be completed and operational by the fourth quarter of 2004.

Other operating expenses increased 15.5% in 2003 compared to 2002, and increased 11.2% in 2002 compared to 2001. Other operating expenses were impacted by the court costs associated with a new debt-collection arrangement entered into by TDM, amortization of contract acquisition costs, the provision for bad debt expense, the provision for transaction processing accruals and the amount of management fee income TSYS received from Synovus for management services TSYS provided to TDM in 2001. As a result of a new debt-collection agreement with an existing client in 2003, the Company recognized approximately \$12.4 million of court costs and attorney commissions in operating expense that it expects to recover in future periods. Amortization of contract acquisition costs associated with conversions was \$7.7 million, \$3.5 million and \$387,000 in 2003, 2002 and 2001, respectively.

For 2003, 2002 and 2001, transaction processing provisions were \$3.4 million, \$6.5 million and \$1.4 million, respectively. For 2003, 2002 and 2001, bad debt expense was \$2.7 million, \$2.7 million and \$683,000, respectively. TSYS received \$1.5 million in 2001 for management services from Synovus related to TDM.

Operating Income

Operating income increased 20.9% to \$190.6 million in 2003, compared to \$157.7 million in 2002, which was an increase of 14.5% over 2001 operating income of \$137.7 million. The operating income margin increased to 18.1% in 2003, compared to 16.5% and 15.4% in 2002 and 2001, respectively. The increase in operating income in 2002 and 2001 was the result of the Company's continued commitment to contain the growth in operating expenses below the growth rate in revenues as well as other factors described above.

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

Excluding reimbursable items, the Company's operating profit margin for the year ended December 31, 2003 was 23.0%, compared to 21.8% and 20.9% for the years ended December 31, 2002 and 2001, respectively. Below is the reconciliation between reported operating margin and adjusted operating margin excluding reimbursable items for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Operating income (a)	\$ 190,578,977	157,672,473	137,730,103
Total revenues (b)	\$1,053,465,913	955,132,831	892,321,171
Operating margin (as reported) (a)/(b)	18.1%	16.5%	15.4%
Revenue before reimbursable items (c)	\$ 828,300,732	723,962,805	659,228,125
Adjusted operating margin (a)/(c)	23.0%	21.8%	20.9%

Nonoperating Income

Nonoperating income decreased in 2003 from 2002 and increased in 2002 compared to 2001 primarily due to changes in foreign currency translation gains and the amount of interest the Company earned on its cash investments. Interest income, net for 2003 was \$2.7 million, a 5.6% increase compared to \$2.6 million in 2002, which was a 5.9% decrease compared to \$2.8 million in 2001. The variation in interest income is primarily attributable to the fluctuations in the cash available for investment and lower short-term interest rates. Nonoperating income is expected to decrease in 2004, as compared to 2003, as the result of the interest expense associated with software license obligations.

In connection with the Company's purchase of its corporate campus and its potential impact to nonoperating income, a detailed discussion of TSYS' synthetic lease for its corporate campus and subsequent termination of the lease in 2003 is provided in Related Party Transactions on page F-6.

In July 2002, the Company restructured \$12.6 million of its permanent financing of its UK operation as an intercompany loan. The financing requires the unit to repay the financing in US dollars. The functional currency of the European operations is the British Pound Sterling (BPS). As the Company translates the European financial statements into US dollars, the translated balance of the financing (liability) is adjusted upward or downward to match the US-dollar obligation (receivable) on the parent's financial statement. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation in the Company's statements of income. As a result of the restructuring, the Company recorded a foreign currency translation loss on the Company's financing with its European operations for the year ended December 31, 2003 of \$13,800, compared to a foreign currency translation gain of \$1.9 million and \$122,800 for the years ended December 31, 2002 and 2001, respectively. During the third quarter of 2003, the European operations repaid the remaining balance of the financing.

The Company also records foreign currency translation adjustments associated with other balance sheet accounts. The Company maintains several cash accounts denominated in foreign currencies, primarily in Euros and BPS. As the Company translates the foreign-denominated cash balances into US dollars, the translated cash balance is adjusted upward or downward depending upon the foreign currency exchange movements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation in the Company's statements of income. As those cash accounts have increased, the upward or downward adjustments have increased. The majority of the translation gain of \$1.0 million for the year ended December 31, 2003 relates to the translation of cash accounts.

In anticipation of future capital expenditures in Europe, the Company contributed its BPS cash accounts as additional equity in its European operations. The funds will be primarily used by the European operation to pay for the building of the new data center in Europe. The balance of the Company's foreign-denominated cash accounts subject to risk of translation gains or losses at December 31, 2003 was approximately \$1.8 million, the majority of which is denominated in BPS.

Income Taxes

Income tax expense was \$70.9 million, \$57.9 million and \$53.9 million in 2003, 2002 and 2001, respectively, representing effective income tax rates of 33.6%, 31.7% and 34.4%, respectively. The calculation of the effective tax rate includes minority interest in consolidated subsidiary's net income and equity in income of the joint venture of Vital in pretax income. TSYS' increase in its effective income tax rate for 2003 was primarily due to the result of federal and state tax credits growing at a slower rate than pretax income.

Equity in Income of Joint Ventures

TSYS' share of income from its equity in joint ventures was \$17.8 million, \$20.6 million and \$17.8 million for 2003, 2002 and 2001, respectively. The decrease in 2003 is primarily attributable to the decrease in Vital's operating results as a result of pricing concessions and charges associated with an executive's retirement and termination of Vital's stock-based compensation plans. The increase in 2002 is primarily the result of Vital's improved operating results as a result of operating efficiencies and increased transaction volumes compared to 2001.

Vital Processing Services L.L.C.

The Company has a joint venture with Visa U.S.A. and records its 50% ownership in the joint venture using the equity method of accounting. The Company considers Vital to be an integral part of its overall processing operations and an important part of its overall market strategy. Prior to forming the joint venture, TSYS performed back-end merchant processing services for its

clients. The revenues and expenses associated with merchant processing were included in revenues, expenses and operating income. In 1996, the Company formed Vital with Visa U.S.A. in order to expand its merchant processing business. TSYS remains involved in the daily processing of Vital's merchant clients, and within TSYS' operating expenses are expenses related to merchant processing. In the ordinary course of business, TSYS, which owns the merchant back-end processing software used by Vital, provides processing services to Vital. For 2003, TSYS generated \$22.1 million of revenue from Vital, compared to \$23.6 million and \$22.7 million in 2002 and 2001, respectively.

During 2003, the Company's equity in income of joint ventures related to Vital was \$16.7 million, a 15.6% decrease, or \$3.1 million, compared to \$19.8 million in 2002, which was a 23.6% increase, or \$3.8 million compared to \$16.0 million in 2001. The decrease in Vital's net income was primarily the result of higher salaries and other personnel related expenses due to an executive retirement, termination of a stock option plan and charges to record the impairment of certain software and investment assets.

Vital is a leader in providing integrated end-to-end electronic transaction processing services primarily to large financial institutions and other merchant acquirers. Vital processes all payment forms including credit, debit, electronic benefit transfer and check truncation for merchants of all sizes across a wide array of retail market segments. Vital's unbundled products and services include: authorization and capture of electronic transactions; clearing and settlement of electronic transactions; information reporting services related to electronic transactions; merchant billing services; and point of sale terminal sales and service. Revenues generated by these activities depend upon a number of factors, such as demand for and price of Vital's services, the technological competitiveness of its product offerings, Vital's reputation for providing timely and reliable service, competition within the industry, and general economic conditions. Vital's products and services are marketed to merchant acquirers through a direct sales force, which concentrates on developing long-term relationships with existing and prospective clients.

Refer to Note 5 for condensed consolidated financial information for Vital.

Processing contracts with large clients, representing a significant portion of Vital's total revenues, generally provide for discounts on certain services based on the volume of transactions processed by the client. Transaction volumes are influenced by both the number and type of merchants. The growth or loss of merchants impacts the results of operations from period to period. Operating results may also be significantly impacted by a customer selling all or a portion of its merchant acquiring business. Consolidation among financial institutions has

resulted in an increasingly concentrated client base, which results in a high concentration of revenues being derived from a small number of customers.

Revenues for Vital increased \$7.2 million, or 2.9%, in 2003, compared to 2002. In 2002, revenues increased \$24.6 million, or 11.0%, compared to 2001. The increase in 2003 over 2002 was primarily the result of increases in the number of transactions processed (net of price reductions to certain clients), debit network fees charged to customers and revenues associated with Vital's terminal deployment business. The increase in 2002 over 2001 was primarily the result of increases in the number of transactions processed (net of price reductions to certain customers), debit network transaction fees charged to customers and revenues associated with Vital's terminal deployment business.

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

Other expenses consist primarily of the cost of network telecommunications capability; transaction processing systems including depreciation and amortization, maintenance and other system costs; third party service providers including TSYS and Visa; and terminal equipment cost of sales. Vital has agreements with both TSYS and Visa to provide key services related to its business. Vital is dependent on both TSYS and Visa to perform on their obligations under these agreements. Vital's results of operation could be significantly impacted by material changes in the terms and conditions of the agreements with TSYS and Visa, changes in performance standards and the financial condition of both TSYS and Visa.

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

TSYS de México

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

During 2003, the Company's equity in income of joint ventures related to TSYS de México was \$1.1 million, a

38.2% increase, or \$316,000, compared to \$828,000 in 2002, which was a 55.0% decrease, or \$1.0 million, compared to \$1.8 million in 2001.

As a result of the restructuring of its joint venture agreement, TSYS agreed to pay TSYS de México a processing support fee for certain client relationship and network services that TSYS de México has assumed from TSYS. TSYS paid TSYS de México a processing support fee of \$591,000, \$917,000 and \$301,000 in 2003, 2002 and 2001, respectively. This processing support fee decreased, beginning in the fourth quarter of 2003, with the deconversion of TSYS' largest client in Mexico.

Net Income

Net income increased 12.1% to \$141.0 million (basic earnings per share of \$0.72 and diluted earnings per share of \$0.71) in 2003, compared to 2002. In 2002, net income increased 20.5% to \$125.8 million (basic and diluted earnings per share of \$0.64), compared to \$104.4 million (basic earnings per share of \$0.54 and diluted earnings per share of \$0.53) in 2001.

Net Profit Margin

The Company's net profit margin for 2003 was 13.4%, compared to 13.2% and 11.7% for the years ended December 31, 2002 and 2001, respectively. Management believes that reimbursable items distort net profit margin as defined by generally accepted accounting principles. Management evaluates the Company's operating performance based upon net margin excluding reimbursable items. Management believes that net profit margin excluding reimbursable items is more useful because reimbursable items do not impact profitability as the Company receives reimbursement for expenses incurred on behalf of its clients.

Excluding reimbursable items, the Company's net profit margin for the year ended December 31, 2003 was 17.0%, compared to 17.4% and 15.8% for the years ended December 31, 2002 and 2001, respectively.

Below is the reconciliation between reported net profit margin and adjusted net profit margin excluding reimbursable items for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Net income (a)	\$ 140,972,967	125,804,971	104,418,229
Total revenues (b)	\$1,053,465,913	955,132,831	892,321,171
Net profit margin (as reported) (a)/(b)	13.4%	13.2%	11.7%
Revenue before reimbursable items (c)	\$ 828,300,732	723,962,805	659,228,125
Adjusted net profit margin (a)/(c)	17.0%	17.4%	15.8%

Projected Outlook 2004 and 2005

TSYS expects its 2004 earnings per share (EPS) to exceed its 2003 EPS by 5-7% and its revenues (excluding reimbursables) to exceed its 2003 revenues by 11-13%. The forecast does not include any revenues or expenses associated with signing and converting any new major clients and does not include the effect of any potential changes to relationships with certain large clients.

TSYS anticipates 10-15% growth in earnings per share in 2005, based on the following assumptions: revenue before reimbursable items, increasing between 10-12%, driven by 6-9% growth in revenue from existing electronic payment processing clients, no significant client losses occurring through 2005 and Vital's earnings growing by at least 5%.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Consolidated Statements of Cash Flows show the Company's cash flows from operating, investing and financing activities. TSYS' primary methods for funding its operations and growth have been cash generated from current operations and the use of leases and the occasional use of borrowed funds to supplement financing of capital expenditures.

Cash Flows from Operating Activities

TSYS' main source of funds is derived from operating activities, specifically net income. During 2003, the Company generated \$266.4 million in cash from operating activities compared to \$197.6 million and \$90.6 million in 2001 and 2000, respectively. The increase in 2003 in net cash provided from operating activities was driven by the increase in net income, the increase in noncash activities such as depreciation and amortization, and the payment from Bank One in connection with the new processing arrangement signed in 2003. The increase in 2002 in net cash provided by operating activities was related to changes in working capital and increased profitability. The decline in 2001 in net cash provided by operating activities was related to changes in working capital and cash commitments of expanding in Europe without the full year benefit of any processing revenues.

Cash Flows from Investing Activities

The major uses of cash generated by operations have been the addition of property and equipment, primarily computer equipment and the purchase of the campus facility, internal development and purchase of computer software, investments in contract acquisition costs associated with obtaining and serving new or existing clients, and business acquisitions, offset by cash dividends from joint ventures. The Company used \$234.6 million in cash for investing activities in 2003, compared to \$134.4 million and \$103.2 million in 2002 and 2001, respectively.

Property and Equipment

Capital expenditures for property and equipment were \$125.3 million in 2003, compared to \$14.8 million in 2002 and \$32.5 million in 2001. The increase in capital expenditures in 2003 is due to the purchase of the corporate campus and the building of a new data center in Europe, as discussed below. A detailed discussion of TSYS' synthetic lease for its corporate campus and subsequent termination of the lease in 2003 is provided in Off-Balance Sheet Arrangements on page F-9. During 2001, the Company began building the infrastructure necessary to establish an operations facility in Europe, which resulted in higher capital expenditures in 2001 as compared to 2002.

On July 30, 2003, the Company announced the groundbreaking for a new TSYS data center in Knaresborough, England. The 47,000 square-foot facility will replace the current center in Harrogate, England. It will be built on three acres and includes 15,000 square feet of office space. The new data center is estimated to cost approximately £20 million and should be completed by the end of the fourth quarter of 2004.

Purchased Computer Software

Expenditures for purchased computer software were \$47.3 million in 2003, compared to \$37.0 million in 2002 and \$36.7 million in 2001. The increase in 2003 relates to annual site licenses for mainframe processing systems whose fees are based upon a measure of TSYS' computer processing capacity, commonly referred to as millions of instructions per second (MIPs).

Software Development Costs

Additions to software development costs, including enhancements to and development of TS2 processing systems, were \$17.7 million in 2003, \$29.5 million in 2002 and \$19.5 million in 2001. As a result of discontinuing and abandoning development on certain software development projects, the Company expensed \$1.2 million in software development costs in 2001 as employment and other operating expenses that were previously capitalized. The decline in the amount capitalized as software development costs in 2003, as compared to 2002, is the result of several projects being completed in 2002.

The following is a summary of the additions to software development costs by project for the years ended December 31, 2003, 2002 and 2001:

(in millions)	2003	2002	2001
TSYS ProphIT	\$10.7	11.1	4.2
Integrated Payments	0.8	4.6	2.3
Double Byte	0.5	5.5	4.0
TSYS Total Commerce	---	3.4	6.2
Other Capitalized Software Development Costs	5.7	4.9	1.6
Total	\$17.7	29.5	18.3

The Company continues to develop TSYS ProphITSM, a Web-based process management system that provides direct access to account information and other system interfaces to help streamline an organization's business processes. TSYS ProphIT is currently being offered to TSYS' processing clients with the general release of the core platform having occurred in the fourth quarter of 2003. Continued development of TSYS ProphIT provides increased and enhanced functionality to the core platform, to include additional customer service functions. The Company capitalized approximately \$10.7 million in 2003 on TSYS ProphIT, bringing the total capitalized costs to \$26.0 million since the project began.

The Company is developing its Integrated Payments Platform (IPP) supporting the online and offline debit and stored value markets, which will give clients access to all national and regional networks, electronic benefit transfer (EBT) programs, and ATM driving and switching services for online debit processing. The Company capitalized approximately \$0.8 million in 2003 on IPP, bringing the total capitalized costs to \$7.7 million since the project began. The Company expects to complete the system in phases. As of December 31, 2003, the EBT and offline debit phases were complete and placed in service. The online debit and stored value phases continue to be developed.

Due to the complexity of the differences between the English language and Asian languages, computer systems require two bytes to store an Asian character compared to one byte in the English language. With the opening of a branch office in Japan to facilitate its marketing of card processing services, TSYS began modifying its current TS2 system to accommodate language and currency differences with Asia, commonly referred to as the "double byte project." The Company capitalized a total of \$0.5 million in 2003. The Company has invested a total of \$10.1 million since the project began.

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

Cash Used in Acquisitions

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

services by adding distinct value differentiation for TSYS and its clients.

Upon the recommendation of a special committee of TSYS directors, on October 15, 2002 the Board of Directors of TSYS approved the purchase of ProCard from Synovus for \$30.0 million in cash. ProCard is a provider of software and Internet tools designed to assist organizations with the management of purchasing, travel and fleet card programs. On November 1, 2002, TSYS completed the acquisition. ProCard's software solutions have been integrated into TSYS' processing solutions. Because the acquisition of ProCard was a transaction between entities under common control, the Company is reflecting the acquisition at historical cost in accordance with SFAS No. 141. In accordance with the provisions of SFAS No. 141, TSYS restated its consolidated financial statements for periods that Synovus controlled both ProCard and TSYS to include the financial position, results of operations and cash flows of ProCard since May 2000.

Cash Dividends from Joint Ventures

Total cash dividends received from joint ventures was \$5.3 million in 2003, compared to \$17.9 million and \$10.4 million in 2002 and 2001, respectively. As part of the restructured agreement for the Mexican joint venture, TSYS de México made a capital distribution to its owners. TSYS received \$3.3 million in 2001 from TSYS de México as its share of the capital distribution, which reduced TSYS' investment in TSYS de México. The \$3.3 million capital distribution is included in the dividend for 2001.

Contract Acquisition Costs

TSYS makes cash payments for processing rights, third-party development costs and other direct salary related costs in connection with converting new customers to the Company's processing systems. The Company's investments in contract acquisition costs were \$18.1 million in 2003, \$44.0 million in 2002 and \$27.2 million in 2001. Cash payments for processing rights were \$4.5 million, \$25.7 million and \$16.5 million in 2003, 2002 and 2001, respectively. Conversion cost additions were \$13.6 million, \$18.3 million and \$10.7 million in 2003, 2002 and 2001, respectively.

Cash Flows from Financing Activities

The major use of cash for financing activities has been the payment on long-term debt, the payment of dividends and the purchase of stock under the stock repurchase plan as described below. The main source of cash from financing activities has been the occasional use of borrowed funds. Net cash used in financing activities for the year ended December 31, 2003 was \$20.9 million mainly as a result of the purchase of common stock and the payment of dividends. The Company used \$12.7 million and \$11.0 million in cash for financing activities for the years ended December 31, 2002 and 2001, respectively, primarily for the payment of cash dividends.

Stock Repurchase Plan

On April 15, 2003, TSYS announced that its board had approved a stock repurchase plan to purchase up to 2 million shares, which represents slightly more than five percent of the shares of TSYS stock held by shareholders other than Synovus. The shares may be purchased from time to time over the next two years and will depend on various factors including price, market conditions, acquisitions and the general financial position of TSYS. Repurchased shares will be used for general corporate purposes. Through December 31, 2003, the Company had purchased 525,291 shares at an average cost of \$18.70 per share.

Line of Credit

In connection with the purchase of the campus, TSYS obtained a \$45.0 million long-term line of credit from a banking affiliate of Synovus. A detailed discussion is included in Related Party Transactions on page F-6.

Dividends

The Company has paid a dividend for 57 consecutive quarters. Dividends on common stock of \$14.8 million were paid in 2003, compared to \$12.8 million and \$11.2 million in 2002 and 2001, respectively. On April 17, 2003, the Company announced a 14.3% increase in its quarterly dividend from \$0.0175 to \$0.0200 per share. On April 18, 2002, the Company announced a 16.7% increase in its quarterly dividend from \$0.0150 to \$0.0175 per share and increased the number of authorized shares from 300 million to 600 million. On February 26, 2001, the Company announced a 20% increase in its quarterly cash dividend from \$0.0125 to \$0.0150 per share.

Significant Noncash Transactions

The Company has recorded \$42.2 million as the present value of payments under software arrangements as computer software and an obligation under software arrangements, previously accounted for incorrectly and disclosed as operating lease commitments. This correction was not material to the Company's financial position, results of operations or cash flows in prior periods. Under these agreements, the Company has negotiated substantial price discounts and the right to use the software perpetually up to certain levels of capacity. These liabilities will be satisfied with scheduled annual payments that generally increase each year. A portion of the annual payments relates to software maintenance and is expensed over the respective maintenance periods. The Company has also acquired computer equipment in the amount of \$3.1 million under a capital lease.

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

Because the acquisition of TDM was a transaction between entities under common control, the Company is reflecting the acquisition at historical cost in accordance with SFAS No. 141.

Additional Cash Flow Information Off-Balance Sheet Financing

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

On June 30, 2003, the Company terminated the operating lease agreement and purchased the corporate campus for \$93.5 million with a combination of \$73.3 million in cash and funds from a long-term line of credit through a banking affiliate of Synovus, which is discussed in the Related Party Transactions on page F-6.

The following table summarizes future contractual cash obligations, including lease payments and software arrangements, as of December 31, 2003, for the next five years and thereafter:

<i>(in millions)</i>	Contractual Cash Obligations Payments Due By Period				
	Total	1 Year or Less	2 - 3 Years	4 - 5 Years	After 5 years
Operating leases	\$254.0	95.1	126.1	24.4	8.4
Capital lease obligations	3.6	0.8	1.6	1.2	---
Software arrangements	59.3	20.9	38.4	---	---
Total contractual cash obligations	\$316.9	116.8	166.1	25.6	8.4

Foreign Exchange

TSYS operates internationally and is subject to potentially adverse movements in foreign currency rate changes. Since December 2000, TSYS has not entered into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes. The Company continues to review potential hedging instruments to safeguard it from significant currency translation risks.

Impact of Inflation

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

Working Capital

TSYS may seek additional external sources of capital in the future. The form of any such financing will vary depending upon prevailing market and other conditions and may include short-term or long-term borrowings from financial institutions or the issuance of additional equity and/or debt securities such as industrial revenue bonds. However, there can be no assurance that funds will be available on terms acceptable to TSYS. Management expects that TSYS will continue to be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future, as evidenced by TSYS’ current ratio of 1.9:1. At December 31, 2003, TSYS had working capital of \$127.4 million, compared to \$148.6 million in 2002 and \$99.6 million in 2001.

Legal Proceedings

The Company has received notification from the United States Attorneys’ Office for the Northern District of California that the United States Department of Justice is investigating whether the Company and/or one of its large credit card processing clients violated the False Claims Act, 31 U.S.C. §§3729-33, in connection with mailings made on behalf of the client from July 1997 through November 2001. Although the exact scope of the investigation is not clear, the Company believes that the subject matter of the investigation relates to the U.S. Postal Service’s Move Update Requirements. In general, the Postal Service’s Move Update Requirements are designed to reduce the volume of mail that is returned to sender as undeliverable as addressed. In effect, these requirements provide, among other things, various procedures that may be utilized to maintain the accuracy of mailing lists in exchange for discounts on postal rates. The Company has received a subpoena from the Office of the Inspector General of the U.S. Postal Service, and has produced documents responsive to the subpoena, and expects to provide further documentation to the government in connection with this investigation. The Company intends to fully cooperate with the Department of Justice in the investigation and there can be no assurance as to the timing or outcome of the investigation, including whether the investigation will result in any criminal or civil fines, penalties, judgments or treble damage or other claims against the Company. The Company is not in a position to estimate whether or not any loss may arise out of this investigation. As a result, no reserve or accrual has been recorded in the Company’s financial statements relating to this matter.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this filing which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). These forward-looking statements include, among others, TSYS' belief with respect to its current market share and its growth opportunities, TSYS' expectation with respect to the impact of the Bank One contract on its earnings per share growth for 2004 and 2005 and thereafter through the payment term of the license, TSYS' expected growth in earnings per share and revenues for 2004, TSYS' expected growth in earnings per share for 2005, the expected cost and completion date for TSYS' new data center located in England, any matter that may arise out of the United States Department of Justice's investigation, TSYS' belief with respect to the fair value of its investments in joint ventures, TSYS' belief with respect to its ability to meet its contractual commitments and with respect to lawsuits, claims and other complaints, the Board of Directors' present intent to continue to pay cash dividends, and the assumptions underlying such statements, including, with respect to TSYS' expected growth in earnings per share for 2005, an increase in revenues before reimbursable items of 10-12%, a 6-9% growth in revenues from existing electronic payment processing clients, Vital Processing Services growing earnings by at least 5% and no significant client losses through 2005. In addition, certain statements in future filings by TSYS with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of TSYS which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of TSYS or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. A number of important factors could cause actual results to differ materially from those contemplated by the forward-

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

CONSOLIDATED BALANCE SHEETS

Assets	December 31,	
	2003	2002
Current assets:		
Cash and cash equivalents (includes \$80.8 million and \$84.5 million on deposit with a related party at 2003 and 2002, respectively) (Notes 2 and 10)	\$ 122,873,589	109,171,206
Restricted cash (includes \$7.6 million and \$4.0 million on deposit with a related party at 2003 and 2002, respectively) (Note 2)	7,679,063	4,035,052
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of \$9.8 million and \$8.0 million at 2003 and 2002, respectively	120,645,594	121,439,387
Deferred income tax assets (Note 7)	400,500	5,411,353
Prepaid expenses and other current assets (Note 10)	22,764,221	22,547,590
Total current assets	274,362,967	262,604,588
Property and equipment, net (Note 3)	232,076,232	120,835,260
Computer software, net (Note 4)	258,090,135	200,297,026
Contract acquisition costs, net (Note 10)	125,471,644	123,728,968
Equity investments (Note 5)	66,708,383	54,181,246
Goodwill, net (Note 10)	29,625,842	3,619,178
Other assets	14,901,294	14,227,058
Total assets	\$1,001,236,497	779,493,324
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 17,549,482	10,365,836
Accrued salaries and employee benefits	32,562,228	43,314,882
Current portion of obligations under capital leases and software arrangements (Note 9)	15,230,761	68,110
Billings in excess of costs and profit on uncompleted contracts	17,573,019	---
Other current liabilities (includes \$4.3 million and \$2.9 million payable to related parties at 2003 and 2002, respectively) (Note 10)	64,055,680	60,232,889
Total current liabilities	146,971,170	113,981,717
Obligations under capital leases and software arrangements, excluding current portion (Note 9)	29,747,837	67,354
Other accounts payable	---	562,500
Deferred income tax liabilities (Note 7)	88,544,419	59,932,000
Total liabilities	265,263,426	174,543,571
Minority interest in consolidated subsidiary	3,439,424	2,743,863
Shareholders' equity (Note 6):		
Common stock - \$.10 par value. Authorized 600,000,000 shares; 197,504,087 and 197,254,087 issued at 2003 and 2002, respectively; 196,815,429 and 197,049,470 outstanding at 2003 and 2002, respectively	19,750,409	19,725,409
Additional paid-in capital	41,573,634	35,143,089
Accumulated other comprehensive income	8,314,304	1,052,897
Treasury stock (shares of 688,658 and 204,617 at 2003 and 2002, respectively)	(12,426,320)	(3,316,703)
Retained earnings	675,321,620	549,601,198
Total shareholders' equity	732,533,647	602,205,890
Total liabilities and shareholders' equity	\$1,001,236,497	779,493,324

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2003	2002	2001
Revenues:			
Electronic payment processing services (includes \$18.7 million, \$19.1 million and \$34.7 million from related parties for 2003, 2002 and 2001, respectively)	\$ 707,816,033	617,876,400	572,412,050
Other services (includes \$6.4 million, \$6.6 million and \$6.5 million from related parties for 2003, 2002 and 2001, respectively)	120,484,699	106,086,405	86,816,075
Revenues before reimbursable items	828,300,732	723,962,805	659,228,125
Reimbursable items (includes \$9.0 million, \$9.9 million and \$9.8 million from related parties for 2003, 2002 and 2001, respectively)	225,165,181	231,170,026	233,093,046
Total revenues (Notes 2 and 11)	1,053,465,913	955,132,831	892,321,171
Expenses:			
Salaries and other personnel expense	326,568,225	300,239,783	267,791,982
Net occupancy and equipment expense	205,844,528	174,957,895	171,679,560
Other operating expenses (includes \$8.9 million, \$9.5 million and \$7.9 million to related parties for 2003, 2002 and 2001, respectively)	105,333,560	91,167,502	81,960,950
(Gain) loss on disposal of equipment, net	(24,558)	(74,848)	92,530
Expenses before reimbursable items	637,721,755	566,290,332	521,525,022
Reimbursable items	225,165,181	231,170,026	233,093,046
Total expenses (Note 2)	862,886,936	797,460,358	754,618,068
Operating income	190,578,977	157,672,473	137,703,103
Nonoperating income (expense):			
Interest income, net of interest expense (includes \$0.6 million, \$1.1 million and \$2.3 million from related parties for 2003, 2002 and 2001, respectively)	2,747,569	2,600,989	2,736,298
Gain on foreign currency translation, net	1,042,144	3,012,842	121,967
Other, net	1	90	68
Total nonoperating income (expense)	3,789,714	5,613,921	2,858,333
Income before income taxes, minority interest and equity in income of joint ventures	194,368,691	163,286,394	140,561,436
Income taxes	70,868,175	57,907,900	53,891,659
Minority interest in subsidiary's net income	(337,895)	(154,627)	(76,003)
Equity in income of joint ventures (Note 5)	17,810,346	20,581,104	17,824,455
Net income	\$ 140,972,967	125,804,971	104,418,229
Basic earnings per share	\$ 0.72	0.64	0.54
Diluted earnings per share	\$ 0.71	0.64	0.53
Weighted average common shares outstanding	196,829,802	197,016,699	194,772,766
Increase due to assumed issuance of shares related to stock options outstanding	607,942	480,350	831,696
Weighted average common and common equivalent shares outstanding	197,437,744	197,497,049	195,604,462

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	\$140,972,967	125,804,971	104,418,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in subsidiary's net income	337,895	154,627	76,003
Gain on foreign currency translation, net	(1,042,144)	(3,012,842)	(121,967)
Equity in income of joint ventures	(17,810,346)	(20,581,104)	(17,824,455)
Depreciation and amortization	98,415,417	74,013,487	58,477,523
Charges for bad debt expense and billing adjustments	2,690,373	3,262,830	569,434
Charges for transaction processing provisions	3,449,943	6,532,268	1,438,241
Deferred income tax expense	27,066,682	13,620,858	15,743,047
(Gain) loss on disposal of equipment, net	(24,558)	(74,848)	92,530
(Increase) decrease in:			
Accounts receivable	3,624,120	(5,355,433)	(16,496,167)
Prepaid expenses and other assets	3,827,159	1,662,303	(3,191,167)
Increase (decrease) in:			
Accounts payable	3,027,639	(11,339,601)	(30,510,677)
Accrued salaries and employee benefits	(10,819,056)	3,276,104	(5,444,281)
Billings in excess of costs and profit on uncompleted contracts	17,573,019	---	---
Other current liabilities	(4,933,935)	9,650,177	(16,642,448)
Net cash provided by operating activities	266,355,175	197,613,797	90,583,845
Cash flows from investing activities:			
Purchase of property and equipment	(125,301,543)	(14,781,422)	(32,476,377)
Additions to purchased computer software	(47,311,850)	(37,020,367)	(36,727,463)
Additions to internally developed computer software	(17,688,831)	(29,451,048)	(18,304,356)
Proceeds from disposal of equipment	66,143	161,973	1,084,219
Cash acquired in acquisition	4,442,163	2,858,384	---
Cash used in acquisition	(36,000,000)	(30,000,000)	---
Dividends received from joint ventures	5,277,523	17,855,119	10,410,281
Increase in contract acquisition costs	(18,128,948)	(44,043,871)	(27,194,200)
Net cash used in investing activities	(234,645,343)	(134,421,232)	(103,207,896)
Cash flows from financing activities:			
Purchase of common stock	(9,824,814)	---	---
Proceeds from issuance of long-term debt	20,233,983	---	---
Principal payments on long-term debt	(20,233,983)	---	---
Principal payments on capital lease obligations	(205,629)	(102,989)	(110,480)
Dividends paid on common stock	(14,764,849)	(12,772,086)	(11,198,915)
Proceeds from exercise of stock options	3,929,297	204,550	264,365
Net cash used in financing activities	(20,865,995)	(12,670,525)	(11,045,030)
Effect of exchange rate changes on cash and cash equivalents	2,858,546	(9,334)	(664,564)
Net increase (decrease) in cash and cash equivalents	\$ 13,702,383	50,512,706	(24,333,645)
Cash and cash equivalents at beginning of year	109,171,206	58,658,500	82,992,145
Cash and cash equivalents at end of period	\$122,873,589	109,171,206	58,658,500
Cash paid for interest	\$ 138,887	36,304	66,149
Cash paid for income taxes (net of refunds received)	\$ 38,729,242	34,017,594	50,732,072

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total Shareholders' Equity
	Shares	Dollars					
Balance as of December 31, 2000	195,079,087	\$19,507,909	\$25,352,864	(\$1,613,681)	(\$3,594,683)	\$374,363,492	\$414,015,901
Comprehensive income:							
Net income	---	---	---	---	---	104,418,229	104,418,229
Other comprehensive loss, net of tax:							
Foreign currency translation	---	---		(1,841,657)	---	---	(1,841,657)
Other comprehensive loss	---	---	---	---	---	---	(1,841,657)
Comprehensive income	---	---	---	---	---	---	<u>102,576,572</u>
Common stock issued from treasury shares for exercise of stock options (Note 6)	---	---	243,167	---	61,358	---	304,525
Cash dividends declared (\$0.060 per share)	---	---	---	---	---	(11,686,355)	(11,686,355)
Tax benefits associated with stock options	---	---	2,118,956	---	---	---	2,118,956
Balance as of December 31, 2001	195,079,087	19,507,909	27,714,987	(3,455,338)	(3,533,325)	467,095,366	507,329,599
Comprehensive income:							
Net income	---	---	---	---	---	125,804,971	125,804,971
Other comprehensive income, net of tax:							
Foreign currency translation	---	---	---	4,508,235	---	---	4,508,235
Other comprehensive income	---	---	---	---	---	---	4,508,235
Comprehensive income	---	---	---	---	---	---	<u>130,313,206</u>
Common stock issued in an acquisition (Note 2)	2,175,000	217,500	6,077,050	---	---	---	6,294,550
Common stock issued from treasury shares for exercise of stock options (Note 6)	---	---	122,670	---	216,622	---	339,292
Cash issued in an acquisition (Notes 2 and 12)	---	---	---	---	---	(30,000,000)	(30,000,000)
Cash dividends declared (\$0.068 per share)	---	---	---	---	---	(13,299,139)	(13,299,139)
Tax benefits associated with stock options	---	---	1,228,382	---	---	---	1,228,382
Balance as of December 31, 2002	197,254,087	19,725,409	35,143,089	1,052,897	(3,316,703)	549,601,198	602,205,890
Comprehensive income:							
Net income	---	---	---	---	---	140,972,967	140,972,967
Other comprehensive income, net of tax:							
Foreign currency translation	---	---	---	7,261,407	---	---	7,261,407
Other comprehensive income	---	---	---	---	---	---	7,261,407
Comprehensive income	---	---	---	---	---	---	<u>148,234,374</u>
Common stock issued from treasury shares for exercise of stock options (Note 6)	---	---	(78,400)	---	715,197	---	636,797
Common stock issued for exercise of stock options	250,000	25,000	3,267,500	---	---	---	3,292,500
Purchase of treasury shares	---	---	---	---	(9,824,814)	---	(9,824,814)
Cash dividends declared (\$0.078 per share)	---	---	---	---	---	(15,252,545)	(15,252,545)
Tax benefits associated with stock options	---	---	3,241,445	---	---	---	3,241,445
Balance as of December 31, 2003	197,504,087	\$19,750,409	\$41,573,634	\$8,314,304	(\$12,426,320)	\$675,321,620	\$732,533,647

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 81.1% owned subsidiary of Columbus Bank and Trust Company (CB&T) which is a wholly owned subsidiary of Synovus Financial Corp. (Synovus). Synovus' stock is traded on the NYSE under the symbol "SNV."

TSYS provides electronic payment processing and related services to banks and other card-issuing institutions located in the United States, Mexico, Canada, Honduras, the Caribbean and Europe. The Company offers merchant processing services to financial institutions and other organizations in Japan through its majority owned subsidiary, GP Network Corporation (GP Net), and in the United States through its joint venture, Vital Processing Services L.L.C. (Vital).

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION: The accompanying consolidated financial statements of Total System Services, Inc. include the accounts of TSYS and its subsidiaries, which are listed below. Significant intercompany accounts and transactions have been eliminated in consolidation.

Company Name		Year Acquired/ Started	Ownership Percentage
Columbus Depot Equipment Company	CDEC	1988	100%
Columbus Productions, Inc.	CPI	1994	100%
TSYS Canada, Inc.	TSYS Canada	1998	100%
GP Network Corporation	GP Net	2000	51%
TSYS Total Debt Management, Inc.	TDM	2002	100%
ProCard, Inc.	ProCard	2002	100%
Enhancement Services Corporation	ESC	2003	100%
TSYS Technology Center, Inc.	TTC	2003	100%
TSYS Japan Co., Ltd.	TSYS Japan	2003	100%

RISKS AND UNCERTAINTIES AND USE OF ESTIMATES: Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, lower than anticipated growth from existing clients, an inability to attract new clients and grow internationally, loss of a major customer, an inability to grow through acquisitions or successfully integrate acquisitions, an inability to control expenses, technology changes, financial services consolidation, changes in regulatory requirements, a decline in the use of cards as a payment mechanism, a

decline in the financial stability of the Company's clients and uncertain economic conditions. Negative developments in these or other risk factors could have a material adverse effect on the Company's financial position, results of operations and cash flows.

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

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

RESTRICTED CASH: Restricted cash balances relate to cash balances collected on behalf of customers and are held in escrow. TSYS records a corresponding liability for the obligation to the customer which is reflected in other current liabilities in the accompanying consolidated balance sheets.

ACCOUNTS RECEIVABLE: Accounts receivable balances are stated net of allowances for doubtful accounts and billing adjustments of \$9.8 million and \$8.0 million at December 31, 2003 and December 31, 2002, respectively.

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

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

TSYS records an allowance for billing adjustments for actual and potential billing discrepancies. When estimating the allowance for billing adjustments, the Company considers its overall history of billing adjustments, as well

as its history with specific clients and known disputes. Increases in the allowance for billing adjustments are recorded as a reduction of revenues in the Company's consolidated statements of income and actual adjustments to invoices are charged against the allowance for billing adjustments.

PROPERTY AND EQUIPMENT: Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over estimated useful lives of 5-40 years, computer and other equipment over estimated useful lives of 2-4 years, and furniture and other equipment over estimated useful lives of 3-15 years. The Company evaluates impairment losses on long-lived assets used in operations in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets."

PURCHASED COMPUTER SOFTWARE: The Company purchases software that is used in providing electronic payment processing and other services to clients. Purchased software is obtained through perpetual licenses and site licenses and through agreements based on processing capacity (called "MIPs agreements"). Perpetual and site licenses are amortized using the straight-line method over their estimated useful lives which range from three to five years. Software purchased under MIPs agreements is amortized using a units-of-production basis over the estimated useful life of the software, generally not to exceed ten years. The Company evaluates impairment losses on long-lived assets used in operations in accordance with SFAS No. 144.

SOFTWARE DEVELOPMENT COSTS: In accordance with Financial Accounting Standards Board (FASB) Statement No. 86, "Computer Software to be Sold, Leased or Otherwise Marketed," software development costs are capitalized once technological feasibility of the software product has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed a detailed program design and has determined that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is generally available to clients. The Company evaluates the unamortized capitalized costs of software development as compared to the net realizable value of the software product which is determined by future undiscounted net cash flows. The amount by which the unamortized software development costs exceed the net realizable value is written off in the period that such determination is made. Software development costs are amortized using the greater of (1) the straight-line method over its estimated useful life, which ranges from three to ten years or (2) the ratio of

current revenues to total anticipated revenue over its useful life.

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

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

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

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

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

in joint ventures are included in other noncurrent assets in the accompanying consolidated balance sheets.

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

SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company adopted SFAS No. 142 January 1, 2002.

At December 31, 2003, the Company had unamortized goodwill in the amount of \$29.6 million. As a result of implementing SFAS No. 142, the Company incurred no amortization expense of goodwill during the years ended December 31, 2003 and 2002. Amortization expense related to goodwill was \$889,000 for the year ended December 31, 2001. On May 31, 2003, the Company performed its annual impairment analyses of its unamortized goodwill balance, and this test did not result in any impairment.

FAIR VALUES OF FINANCIAL INSTRUMENTS: The Company uses financial instruments in the normal course of its business. The carrying values of cash equivalents, accounts receivable, accounts payable, accrued salaries and employee benefits, and other current liabilities approximate their fair value due to the short-term maturities of these assets and liabilities. The fair value of the Company's obligations under capital leases is not significantly different from its carrying value.

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

IMPAIRMENT OF LONG-LIVED ASSETS: In accordance with SFAS No. 144, the Company reviews long-lived assets, such as property and equipment and intangibles subject to amortization, such as contract acquisition costs and certain computer software, for impairment whenever events or

changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted operating cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of an asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

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

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

MINORITY INTEREST: Minority interest in earnings of subsidiary represents the minority shareholders' share of the net income or loss of GP Net. The minority interest in the consolidated balance sheet reflects the original investment by these shareholders in GP Net, their proportional share of the earnings or losses and their proportional share of net gains or losses resulting from the currency translation of assets and liabilities of GP Net.

BILLINGS IN EXCESS OF COSTS AND PROFITS ON UNCOMPLETED CONTRACTS: When provisions for progress payments exist on long-term contracts accounted for under the percentage-of-completion method, the Company includes amounts for contract billings that exceed accumulated contract revenues in billings in excess of costs and profit on uncompleted contracts.

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

FOREIGN CURRENCY TRANSLATION: The Company maintains several different foreign operations whose functional currency is their local currency. Foreign currency financial statements of the Company's Mexican joint venture, the Company's wholly owned subsidiary with an operation in Canada, the Company's wholly owned subsidiary in Japan, the Company's majority owned subsidiary in Japan, GP Net, as well as the Company's branches in Japan and the United Kingdom, are translated into U.S. dollars at current exchange rates, except for revenues, costs and expenses, and net income which are translated at the average exchange rates for each reporting period. Net gains or losses resulting from the currency translation of assets and liabilities of the Company's foreign operations, net of tax, are accumulated in a separate section of shareholders' equity titled accumulated other comprehensive income (loss). Gains and losses on transactions denominated in currencies other than the functional currencies are included in determining net income for the period in which exchange rates change.

COMPREHENSIVE INCOME (LOSS): 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 (loss). TSYS displays the items of other comprehensive income (loss) in its consolidated statements of shareholders' equity and comprehensive income.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 (SFAS No. 138), "Accounting for Certain Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. The Company adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. The Company did not have any outstanding derivative instruments or hedging transactions at December 31, 2003.

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

The Company recognizes software license revenue in accordance with Statement of Position No. (SOP) 97-2,

"Software Revenue Recognition," and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions." For software licenses for which any services rendered are not considered essential to the functionality of the software, revenue is recognized upon delivery of the software, provided (1) there is evidence of an arrangement, (2) collection of the fee is considered probable, (3) the fee is fixed or determinable, and (4) vendor specific objective evidence (VSOE) exists to allocate revenue to the undelivered elements of the arrangement.

When services are considered essential to the functionality of the software licensed, revenues are recognized over the period that such services will be performed using the percentage-of-completion method in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Progress during the period services performed is measured by the percentage of costs incurred to date to estimated total costs for each arrangement. Provisions for estimated losses on incomplete contracts are made in the period in which such losses are determined. For license arrangements in which the fee is not fixed or determinable, the license revenue is recognized as payments become due.

The Company's other service revenues are derived from recovery collections work, bankruptcy process management, legal account management, skip tracing, commercial printing activities, targeted loyalty programs, and customer relationship management services, such as call center activities for card activation, balance transfer requests, customer service and collection. The contract terms for these services are generally shorter in nature as compared with the Company's long-term processing contracts. Revenue is recognized on these other services as the services are performed either on a per unit or a fixed price basis. The Company uses the percentage-of-completion method of accounting for its fixed price contracts, and progress is measured by the percentage of costs incurred to date to estimated total costs for each arrangement. Provisions for estimated losses on incomplete contracts are made in the period in which such losses are determined.

STOCK-BASED COMPENSATION: The Company maintains stock-based employee compensation plans for purposes of incenting and retaining employees, which are described more fully in Note 6. The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations. Under APB 25, TSYS does not recognize compensation expense for a stock option grant if the exercise price is equal to or greater than the fair market value of the Company's common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Financial Accounting

Standards Board No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation," to stock-based employee compensation granted in the form of TSYS and Synovus stock options.

	Years Ended December 31,		
	2003	2002	2001
Net income (as reported)	\$140,972,967	125,804,971	104,418,229
Stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax effects	4,606,442	6,448,631	5,639,270
Net income (as adjusted)	\$136,366,525	119,356,340	98,778,959
Earnings per share:			
Basic - as reported	\$ 0.72	0.64	0.54
Basic - as adjusted	\$ 0.69	0.61	0.51
Diluted - as reported	\$ 0.71	0.64	0.53
Diluted - as adjusted	\$ 0.69	0.60	0.51

The per share weighted average fair value of TSYS stock options granted during 2003 and 2002 was \$19.79 and \$11.44, respectively. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2003 and 2002, respectively: risk-free interest rates of 3.42% and 2.93%; expected volatility of 85.0% and 66.0%; expected life of 5.0 years and 5.0 years; and dividend yield of 0.3% and 0.4%.

The per share weighted average fair value of Synovus stock options granted to TSYS employees during 2003, 2002 and 2001 was \$4.84, \$9.69 and \$10.75, respectively. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2003, 2002 and 2001, respectively: risk-free interest rates of 3.2%, 5.4% and 5.4%; expected volatility of 34%, 30% and 29%; expected life of 6.0 years, 9.0 years and 8.7 years; and dividend yield of 3.3%, 2.4% and 1.8%.

ADVERTISING: Advertising costs, consisting mainly of advertising in trade publications, are expensed as incurred or the first time the advertising takes place. Advertising expense for 2003, 2002 and 2001 was \$585,000, \$624,000 and \$516,000, respectively.

INCOME TAXES: Income taxes reflected in TSYS' consolidated financial statements are computed based on the taxable income of TSYS as if TSYS were a stand-alone tax reporting entity. A consolidated U.S. 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 and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Income tax provisions require the use of management judgments, which are subject to challenge by various taxing authorities. Significant estimates used in accounting for income taxes relate to the determination of taxable income, the determination of temporary differences between book and tax bases, as well as estimates on the realizability of tax credits.

EARNINGS PER SHARE: Basic earnings per share (EPS) is calculated by dividing net income 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. Diluted EPS is calculated by dividing net income by weighted average common and common equivalent shares outstanding. Common equivalent shares are calculated using the treasury stock method.

RECENT ACCOUNTING PRONOUNCEMENTS: As a result of the Financial Accounting Standards Board's (FASB's) Emerging Issues Task Force 01-14 (EITF 01-14), formerly known as Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred," the Company has included reimbursements received for out-of-pocket expenses as revenue. Historically, TSYS had not reflected such reimbursements in its consolidated statements of income. One of the largest reimbursement expenses for which TSYS is reimbursed by clients is postage. EITF 01-14 was adopted by the Company on January 1, 2002. Upon adoption of EITF 01-14, comparative financial statements for all prior periods have been reclassified to provide a consistent presentation.

In June 2001, the FASB issued Statement No. 143 (SFAS No. 143), "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company must also record a corresponding asset that depreciates over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the

obligation. The Company adopted SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 did not have a material effect on the Company's financial position, results of operations or cash flows.

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

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

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

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

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

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For enterprises with a variable interest in a variable interest entity created

before February 1, 2003, the Interpretation is applied to the enterprise in the first reporting period after December 15, 2003. The adoption of Interpretation No. 46 did not impact the Company's financial position, results of operations or cash flows.

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

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

In December 2003, FASB Statement No. 132 (revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued. Statement No. 132 (revised) prescribes employers' disclosures about pension plans and other postretirement benefit plans; it does not change the measurement or recognition of those plans. The

Statement retains and revises the disclosure requirements contained in the original Statement No. 132. It also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The Statement generally is effective for fiscal years ending after December 15, 2003, and did not impact the Company's financial position, results of operations or cash flows.

RECLASSIFICATIONS: Certain reclassifications have been made to the 2002 and 2001 financial statements to conform to the presentation adopted in 2003.

NOTE 2 Relationships with Affiliated Companies

At December 31, 2003, CB&T owned 159,630,980 shares (81.1%) of TSYS common stock.

Vital Restricted Units

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

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

Lease Guarantee

To assist Vital in leasing its corporate facility, the Company and Visa U.S.A. (Visa) are guarantors, jointly and severally, for the lease payments on Vital's Tempe facility. The lease on the facility expires in July 2007. The total future minimum lease payments remaining at December 31, 2003 are \$5.2 million. If Vital fails to perform its obligations with regard to the lease, TSYS and Visa would be required to perform in the same manner and to same extent as is required by Vital.

Line of Credit

On June 30, 2003, TSYS obtained a \$45.0 million long-term line of credit from a banking affiliate of Synovus. The line is an automatic draw-down facility. The interest rate for the line of credit is the London Interbank Offered Rate (LIBOR) plus 150 basis points. In addition, there is a charge of 15

basis points on any funds unused. The line of credit is unsecured debt and includes covenants requiring the Company to maintain certain minimum financial ratios. At December 31, 2003, TSYS did not have an outstanding balance on the line of credit and was in compliance with all covenants. As the LIBOR rate changes, TSYS will be subject to interest rate risk.

In addition, TSYS maintains another 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 2003, 2002 or 2001.

Acquisitions

Upon the recommendation of a special committee of TSYS directors on October 15, 2002, the board of directors of TSYS approved the purchase of ProCard from Synovus for \$30.0 million in cash. ProCard is a provider of software and Internet tools designed to assist organizations with the management of purchasing, travel and fleet card programs. ProCard's software solutions have been integrated into TSYS' processing solutions. On November 1, 2002, TSYS completed the ProCard acquisition.

Because the acquisition of ProCard was a transaction between entities under common control, the Company has reflected the acquisition at historical cost in accordance with SFAS No. 141. In accordance with the provisions of SFAS No. 141, TSYS has restated its consolidated financial statements for periods prior to TSYS' acquisition of ProCard that Synovus controlled both ProCard and TSYS to include the financial position, results of operations and cash flows of ProCard since May 2000.

Effective January 1, 2002, TSYS acquired TDM from Synovus in exchange for 2,175,000 newly issued shares of TSYS' common stock with a market value of \$43.5 million at the date of acquisition. Prior to the acquisition, TDM operated as a wholly owned subsidiary of Synovus, providing third-party collection services. TDM operates as a separate, wholly owned subsidiary of TSYS. Because the acquisition of TDM was a transaction between entities under common control, the Company has reflected the acquisition at historical cost in accordance with SFAS No. 141 and has reflected the results of operations of TDM in the Company's consolidated financial statements beginning January 1, 2002. The Company did not restate periods prior to 2002 because such restatement was not significant. Refer to Note 12 for more information on TSYS acquisitions.

Balance Sheets

TSYS maintains deposit accounts with CB&T, the majority of which earn interest and on which TSYS receives market rates of interest. Included in cash and cash equivalents are deposit balances with CB&T of \$80.8 million and \$84.5 million at December 31, 2003 and 2002, respectively.

The Company maintains restricted cash balances on deposit with CB&T. The restricted cash balances relate to cash collected on behalf of clients which are held in escrow. At

December 31, 2003 and 2002, the Company had restricted cash balances of \$7.6 million and \$4.0 million, respectively, on deposit with CB&T.

TSYS paid cash dividends to CB&T in the amount of approximately \$12.0 million, \$10.3 million and \$9.1 million in 2003, 2002 and 2001, respectively. TSYS received cash dividends from its equity method joint ventures of approximately \$5.3 million, \$17.9 million and \$7.1 million in 2003, 2002 and 2001, respectively. Additionally, as part of the modification to the joint venture agreement in 2001, TSYS received a capital distribution of approximately \$3.3 million from TSYS de México.

Through its related party transactions, TSYS generates accounts receivable and liability accounts with Synovus, CB&T and its affiliates, Vital and TSYS de México. At December 31, 2003 and 2002, the Company had accounts receivable balances of \$1.1 million and \$1.6 million, respectively, associated with related parties. At December 31, 2003 and 2002, the Company had accounts payable balances of \$1.0 million and \$76,188, respectively, associated with related parties. At December 31, 2003 and 2002, the Company had an accrued current liability related to related parties of \$135,710 and \$87,461, respectively.

Statements of Income

The Company provides electronic payment processing services and other services for Synovus, CB&T and its affiliates, as well as its equity method joint ventures, TSYS de México and Vital.

The table below details revenues derived from affiliated companies for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Electronic payment processing services:			
Vital	\$14,373,892	15,116,769	15,069,633
CB&T	3,874,441	3,425,785	3,274,862
Synovus and affiliates	451,333	488,148	433,223
TSYS de México	29,893	44,788	15,961,010
Total electronic payment processing services:	\$18,729,559	19,075,490	34,738,728
Other services:			
CB&T	\$ 5,677,176	5,575,853	5,789,004
Synovus and affiliates	695,014	959,250	641,701
Vital	48,313	28,121	22,447
Total other services	\$ 6,420,503	6,563,224	6,453,152
Reimbursable items:			
Vital	\$ 7,716,703	8,464,318	7,569,155
CB&T	1,200,640	1,173,370	1,065,103
Synovus and affiliates	84,281	53,781	243,582
TSYS de México	---	237,519	958,400
Total reimbursable items	\$ 9,001,624	9,928,988	9,836,240

The Company and Synovus and its affiliates are parties to various agreements to provide certain services between one another. The table below details expenses associated with affiliated companies for the years ended December 31, 2003, 2002 and 2001 by expense category:

	2003	2002	2001
Salaries and other personnel expense:			
Trustee fees paid to Synovus	\$ 576,498	525,189	558,303
Total salaries and other personnel expense	\$ 576,498	525,189	558,303
Net occupancy and equipment expense:			
Rent paid to TSYS by CB&T	(\$ 39,405)	(39,405)	(39,405)
Rent paid to CB&T by TSYS	318,940	377,285	211,878
Rent paid to TSYS by Synovus	(684,922)	(537,140)	(454,926)
Total net occupancy and equipment expense	(\$ 405,387)	(199,260)	(282,453)
Other operating expenses:			
Management fees paid to Synovus	\$8,038,296	8,078,484	8,606,544
Management fees paid by Synovus	---	---	(1,497,000)
Processing support fees paid to TSYS de México	590,649	916,538	300,587
Service fees paid to Vital	---	325,000	---
Data processing service fees paid to TSYS by Synovus	(2,075)	(24,900)	(24,900)
Data processing service fees paid to Vital	123,381	123,381	327,240
Data processing service fees paid to TSYS de México	23,316	---	---
Lockbox fees paid to Synovus	---	---	100,697
Escrow account fees paid to Synovus Trust	2,010	---	---
Banking service fees paid by TSYS to CB&T	124,376	43,479	46,345
Total other operating expenses	\$8,899,953	9,461,982	7,859,513

Nonoperating Income

	2003	2002	2001
Interest income from CB&T	\$582,056	1,082,405	2,305,617
Interest expense paid to CB&T	29,257	---	---

Stock Options

Certain officers of TSYS and other TSYS employees participate in the Synovus Incentive Plans. Nonqualified options to acquire Synovus common stock were granted in 2003, 2002 and 2001 as follows:

	2003	2002	2001
Number of shares under options	426,413	150,548	3,077,223
Weighted average exercise price	\$18.91	26.56	28.60

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

In 2001, Synovus granted performance-accelerated stock options to certain key TSYS executives. The exercise price per share is equal to the fair market value at the date of grant. The options are subject to a seven-year cliff vesting, but the exercisability may be accelerated if the market price of Synovus common stock exceeds \$40, \$45 and \$50. Refer to Note 6 for more information on stock options.

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

NOTE 3 Property and Equipment

Property and equipment balances at December 31 are as follows:

	2003	2002
Land	\$ 16,992,220	6,825,754
Buildings and improvements	181,339,317	94,660,325
Computer and other equipment	87,988,491	85,241,159
Furniture and other equipment	74,278,587	60,994,892
Construction in progress	8,398,345	877,912
Total property and equipment	368,996,960	248,600,042
Less accumulated depreciation and amortization	136,920,728	127,764,782
Property and equipment, net	\$232,076,232	120,835,260

Depreciation and amortization expense related to property and equipment was \$22,833,424, \$21,180,123 and \$20,775,020 for the years ended December 31, 2003, 2002 and 2001, respectively.

NOTE 4 Computer Software

Computer software at December 31 is summarized as follows:

	2003	2002
Purchased computer software	\$324,116,666	236,195,574
Software development costs:		
TS2	33,048,872	33,048,872
TS2 Total Commerce	36,891,915	36,891,915
TSYS ProphIT	25,984,569	15,296,387
Double Byte	10,059,350	9,527,262
Integrated Payments	7,728,643	6,927,012
Other capitalized software development costs	18,877,040	12,024,249
Total software development costs	132,590,389	113,715,697
Acquisition technology intangibles	3,700,000	---
Total computer software	460,407,055	349,911,271
Less accumulated amortization	202,316,920	149,614,245
Computer software, net	\$258,090,135	200,297,026

Amortization expense related to purchased computer software costs was \$41,146,728, \$30,273,104 and \$24,803,900 for the years ended December 31, 2003, 2002 and 2001, respectively. Amortization of software development costs was \$12,095,891, \$6,803,853 and \$4,817,586 for the years ended December 31, 2003, 2002 and 2001, respectively.

During 2001, the Company ceased the development on an approved software project. The project was reevaluated to determine its utilization in a proposed new client service platform. As a result, the Company expensed \$1.2 million of previously capitalized software development costs in salaries and other personnel and other operating expenses that were originally capitalized on this project.

The weighted average estimated useful lives of purchased computer software was approximately 7.72 years at December 31, 2003 with weighted average remaining useful lives of 2.66 years.

The weighted average estimated useful lives of software development cost was approximately 7.68 years at December 31, 2003 with weighted average remaining useful lives of 3.40 years.

Estimated future amortization expense on purchased computer software and software development costs as of December 31, 2003 for the next five years is:

	Purchased Computer Software	Software Development Costs
2004	\$27,914,549	13,723,086
2005	22,958,142	12,848,962
2006	21,660,492	12,848,962
2007	19,376,015	11,810,510
2008	15,163,335	10,275,186

Amortization expense related to acquisition technology intangibles was \$493,333 for 2003. The weighted average estimated lives of acquisition technology intangibles was approximately 5.00 years for the year ended December 31, 2003 with weighted average remaining useful lives of 4.34 years.

Estimated future amortization expense on acquisition technology intangibles as of December 31, 2003 for the next five years is:

	Acquisition Technology Intangibles
2004	\$740,000
2005	740,000
2006	740,000
2007	740,000
2008	246,667

NOTE 5 Investments in Joint Ventures

TSYS holds a 50% equity interest in Vital, a joint venture with Visa U.S.A., which combines the front-end authorization and back-end accounting and settlement processing for merchants. The condensed consolidated financial information for Vital as of December 31, 2003 and 2002, and for the years ended December 31, 2003, 2002 and 2001, is summarized as follows:

CONSOLIDATED BALANCE SHEET DATA:

(in millions)	2003	2002
Current assets	\$100.2	85.4
Total assets	166.5	129.2
Current liabilities	40.1	26.9
Total liabilities	40.7	28.1
Members' capital	125.7	101.0

CONSOLIDATED STATEMENT OF INCOME DATA:

(in millions)	2003	2002	2001
Revenues	\$255.5	248.3	223.8
Operating income	33.6	39.2	31.3
Net income*	34.1	39.8	32.3

*Vital is a limited liability company with 100 million units of ownership outstanding and is taxed in a manner similar to a partnership; therefore, net income related to Vital does not include income tax expense.

A summary of TSYS' equity in income of joint ventures is as follows:

(in millions)	2003	2002	2001
Vital	\$16.7	19.8	16.0
Other	1.1	0.8	1.8
Total equity in income of joint ventures	\$17.8	20.6	17.8

The Company estimates its equity in income of Vital and adjusts those estimates based upon the final results of Vital. A summary of TSYS' equity investments at December 31 is as follows:

(in millions)	2003	2002
Vital	\$62.7	50.8
Other	4.0	3.4
Total equity investments	\$66.7	54.2

NOTE 6 Shareholders' Equity

TREASURY STOCK: In April 2003, the Company announced a plan to purchase up to 2.0 million shares of its common stock from time to time and at various prices over the ensuing two years. During the year ended December 31, 2003, the Company purchased 525,291 shares for \$9.8 million in cash.

The following table summarizes shares held as treasury stock and their related carrying value:

	Number of Treasury Shares	Treasury Shares Cost
December 31, 2003	688,658	\$12,426,320
December 31, 2002	204,617	3,316,703
December 31, 2001	300,417	3,533,325

During 2003, 2002 and 2001, employees of the Company exercised options for 41,250, 95,800 and 39,800 shares of TSYS common stock, respectively, that were issued from treasury shares. During 2003, employees of the Company exercised options for 250,000 shares of TSYS common stock that were newly issued shares.

LONG-TERM INCENTIVE PLANS – TSYS:

TSYS 2002 LONG-TERM INCENTIVE PLAN

TSYS' compensation program includes long-term performance awards under the Total System Services, Inc. 2002 Long-Term Incentive Plan (TSYS 2002 Plan), which is used to attract, retain, motivate and reward employees and non-employee directors who make a significant contribution to the Company's long-term success. The TSYS 2002 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; 9,355,299 shares of common stock are reserved for distribution under the TSYS 2002 Plan. Options granted under the TSYS 2002 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 TSYS 2002 Plan is determined at the time of grant and may not exceed ten years from the date of the grant. At December 31, 2003, there were options outstanding under the TSYS 2002 Plan to purchase 414,121 shares of the Company's common stock, of which 18,550 were exercisable. There were 8,907,288 shares available for grant at December 31, 2003 under the TSYS 2002 plan.

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; 3.2 million shares of common stock were reserved for distribution under the LTI Plan. Options granted under the LTI Plan may be incentive stock options or nonqualified stock options as determined by the Committee at the time of grant.

Incentive stock options are granted at a price not less than 100% of the fair market value of the stock on the grant date, and nonqualified options are granted at a price to be determined by the Committee. Option vesting terms are established by the Committee at the time of grant and presently range from one to five years.

The expiration date of options granted under the LTI Plan is determined at the time of grant and may not exceed ten years from the date of the grant. At December 31, 2003, there were options outstanding under the LTI Plan to purchase 1,220,000 shares of the Company's common stock, all of which were exercisable.

There were no shares available for grant at December 31, 2003 under the LTI Plan.

OTHER EQUITY ISSUANCES

TSYS has granted options to purchase 37,500 shares of the Company's common stock to attract a key individual to the Company. At December 31, 2003, options to purchase 37,500 shares with a weighted average price of \$18.50 were outstanding and exercisable.

EQUITY COMPENSATION PLANS

The following table summarizes TSYS equity compensation plans by category:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,634,121	\$14.98	8,907,288
Equity compensation plans not approved by security holders (1)	37,500	18.50	---
Total	1,671,621	\$15.05	8,907,288

(1) This plan was adopted by TSYS' board of directors on January 10, 1997 to attract a desirable individual as director of the Company (which individual no longer serves as a director) and is limited to one individual option grant to purchase 37,500 shares of TSYS stock at fair market value on the date of grant with one-third of such options becoming exercisable one, two and three years, respectively, following the date of grant.

A summary of TSYS' stock option activity as of December 31, 2003, 2002 and 2001, and changes during the years ended on those dates is presented below:

	2003		2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options:						
Outstanding at beginning of year	1,963,316	\$14.76	1,644,550	\$12.69	1,684,350	\$12.55
Granted	15,000	28.81	416,066	19.98	---	---
Exercised	(291,250)	13.49	(95,800)	2.00	(39,800)	6.64
Forfeited/canceled	(15,445)	20.06	(1,500)	19.41	---	---
Outstanding at end of year	1,671,621	\$15.05	1,963,316	\$14.76	1,644,550	\$12.69
Options exercisable at year-end	1,276,050	\$13.43	1,556,550	\$13.39	721,300	\$11.96
Weighted average fair value of options granted during the year		\$19.79		\$11.44		na

na=not applicable

The following table summarizes information about TSYS stock options outstanding and exercisable at December 31, 2003:

Number Outstanding at December 31, 2003	Outstanding		Exercisable	
	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
1,220,000	3.84	\$13.17	1,220,000	\$13.17
37,500	5.03	18.50	37,500	18.50
399,121	8.31	19.98	18,550	20.10
15,000	9.89	28.81	---	---
1,671,621	4.99	\$15.05	1,276,050	\$13.43

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

In 2001, Synovus granted performance-accelerated stock options to key TSYS executives to acquire 2.6 million shares of Synovus common stock at an exercise price of \$28.99 per share. The options are subject to a seven-year cliff vesting, but the exercisability may be accelerated if the market price of Synovus common stock exceeds \$40, \$45 and \$50.

A summary of the option activity related to option grants on Synovus common stock to TSYS employees as of December 31, 2003, 2002 and 2001, and changes during the years ended on those dates is presented below:

	2003		2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options:						
Outstanding at beginning of year	6,202,560	\$23.31	6,292,167	\$22.95	3,675,373	\$17.06
Granted	426,413	18.91	150,548	26.56	3,077,223	28.60
Exercised	(513,362)	11.96	(154,759)	15.42	(410,641)	12.91
Forfeited/canceled	(52,675)	21.64	(85,396)	16.62	(49,788)	20.37
Outstanding at end of year	6,062,936	\$23.97	6,202,560	\$23.31	6,292,167	\$22.95
Options exercisable at year-end	2,436,064	\$18.89	2,783,373	\$17.69	2,117,635	\$16.42
Weighted average fair value of options granted during the year		\$ 4.84		\$ 9.69		\$10.75

The following table summarizes information about Synovus' stock options outstanding and exercisable at December 31, 2003:

Range of Exercise Prices	Outstanding		Exercisable		
	Number Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
\$ 1.72 - \$ 9.61	228,055	1.89	\$ 8.89	228,055	\$ 8.89
\$14.28 - \$19.19	1,496,417	5.30	18.16	1,082,004	17.91
\$20.83 - \$22.88	1,138,005	3.39	21.87	1,126,005	21.86
\$26.44 - \$28.99	3,200,459	8.39	28.52	---	---
	6,062,936	6.44	\$23.97	2,436,064	\$18.89

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

	Balance at December 31, 2002	Pretax Amount	Tax Effect	Balance at December 31, 2003
Cumulative currency translation adjustments	\$1,052,897	11,557,712	(4,296,305)	\$8,314,304

	Balance at December 31, 2001	Pretax Amount	Tax Effect	Balance at December 31, 2002
Cumulative currency translation adjustments	(\$3,455,338)	7,068,959	(2,560,724)	\$1,052,897

	Balance at December 31, 2000	Pretax Amount	Tax Effect	Balance at December 31, 2001
Cumulative currency translation adjustments	(\$1,613,681)	(2,917,277)	1,075,620	(\$3,455,338)

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,		
	2003	2002	2001
Current income tax expense (benefit):			
Federal	\$48,209,793	50,179,313	41,036,807
State	(4,408,300)	(5,892,271)	(2,888,195)
Total current income tax expense	43,801,493	44,287,042	38,148,612
Deferred income tax expense (benefit):			
Federal	25,562,977	16,733,592	14,868,433
State	1,503,705	(3,112,734)	874,614
Total deferred income tax expense	27,066,682	13,620,858	15,743,047
Total income tax expense	\$70,868,175	57,907,900	53,891,659

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, minority interest and equity in income of joint ventures as a result of the following:

	Years Ended December 31,		
	2003	2002	2001
Computed "expected" income tax expense	\$68,029,042	57,150,238	49,196,503
Increase (decrease) in income tax expense resulting from:			
Minority interest in income of subsidiary and equity in income of joint ventures	6,115,358	7,149,267	6,211,958
State income tax expense (benefit), net of federal income tax benefit	(1,887,987)	(5,853,253)	(1,308,828)
Increase (decrease) in valuation allowance	1,065,000	(1,050,000)	---
Other, net	(2,453,238)	511,648	(207,974)
Total income tax expense	\$70,868,175	57,907,900	53,891,659

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of the net deferred tax liability at December 31, 2003 and 2002 relate to the following:

	At December 31,	
	2003	2002
Deferred income tax assets:		
Allowable for doubtful accounts and billing adjustments	\$ 5,410,629	4,836,536
Net operating loss and income tax credit carryforwards	5,724,419	6,780,203
Other, net	6,982,649	2,131,395
Total deferred income tax assets	18,117,697	13,748,134
Less valuation allowance for deferred income tax assets	(1,415,000)	(350,000)
Net deferred income tax assets	16,702,697	13,398,134
Deferred income tax liabilities:		
Computer software development costs	(43,646,357)	(38,532,333)
Excess tax over financial statement depreciation	(35,533,788)	(22,442,201)
Foreign currency translation	(4,846,342)	(609,398)
Deferred revenue	(10,333,300)	---
Other, net	(10,486,829)	(6,334,849)
Total deferred income tax liabilities	(104,846,616)	(67,918,781)
Net deferred income tax liability	(\$88,143,919)	(54,520,647)
Total net deferred tax assets (liabilities):		
Current	\$ 400,500	5,411,353
Noncurrent	(88,544,419)	(59,932,000)
Net deferred income tax liability	(\$88,143,919)	(54,520,647)

As of December 31, 2003 and 2002, TSYS had net operating loss and federal and state income tax credit carryforwards of \$7,991,794 and \$7,514,728, respectively. The credits will begin to expire in the year 2010. 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, 2003 and 2002, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes that it is more likely than not that TSYS will realize the benefits of these deductible differences, net of existing valuation allowances. The valuation allowance for deferred tax assets was \$1,415,000 and \$350,000 at December 31, 2003 and 2002, respectively. The increase in the valuation allowance for deferred income tax assets was \$1,065,000 for the year ended December 31, 2003. The increase relates to new state tax credits earned for which, it is more likely than not, some portion is not expected to be realized in later years to reduce taxable income. The decrease in the valuation allowance for deferred income tax assets was \$1,050,000 for the year ended December 31, 2002. This decrease in the valuation allowance was related to evidence of sufficient taxable income to allow for utilization of certain state tax credit carryforwards.

The Company realizes substantial credits against state income taxes. The Company is able to recognize benefits in excess of its state income tax obligations by transferring these credits to affiliated companies which are able to use the credits in exchange for cash payments.

NOTE 8 Employee Benefit Plans

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

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 for the years ended December 31 are as follows:

	2003	\$13,782,044
	2002	13,154,994
	2001	11,269,073

PROFIT SHARING PLAN: The Company's employees are eligible to participate in the Synovus Financial Corp./Total System Services, Inc. (Synovus/TSYS) Profit Sharing Plan. The Company's contributions to the plan are contingent upon achievement of certain financial goals. The terms of the plan limit the Company's contribution to 7% 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 for the years ended December 31 are as follows:

2003	\$ 3,805,013
2002	11,320,087
2001	11,379,139

401(K) PLAN: The Company's employees are eligible to participate in the Synovus/TSYS 401(k) Plan. The terms of the plan allow employees to contribute up to 15% of pretax eligible compensation with a discretionary company contribution up to a maximum of 7% of participant compensation, as defined, based upon the Company's attainment of certain financial goals. The Company did not make a contribution to the plan for the years ended December 31, 2003, 2002 and 2001, respectively.

STOCK PURCHASE PLAN: The Company maintains stock purchase plans for employees and directors, whereby TSYS makes contributions equal to one-half of employee and director voluntary contributions. The funds are used to purchase presently issued and outstanding shares of TSYS common stock for the benefit of participants. TSYS' contributions to these plans charged to expense for the years ended December 31 are as follows:

2003	\$3,766,280
2002	3,533,666
2001	3,179,490

POSTRETIREMENT MEDICAL BENEFITS PLAN: TSYS provides certain medical benefits to qualified retirees through a postretirement medical benefits plan. The measurement of the benefit expense and accrual benefit costs associated with the plan do not reflect the effects of the 2003 Medicare Act. Additionally, the benefit expense and accrued benefit cost associated with the plan, as well as any potential impact of the 2003 Medicare Act, 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.

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, 2003, are as follows:

(in millions)	2004	\$ 73.9
	2005	80.0
	2006	46.1
	2007	18.7
	2008	5.7
	Thereafter	8.4
Total future minimum lease payments		\$232.8

All computer equipment lease commitments come with a renewal option or an option to terminate the lease. These lease commitments may be replaced with new leases which allows the Company to continually update its computer equipment. Total rental expense under all operating leases in 2003, 2002 and 2001 was \$93.6 million, \$81.8 million and \$89.2 million, respectively.

CAPITAL LEASE AND SOFTWARE OBLIGATIONS: Capital lease and software obligations at December 31 consist of:

	2003	2002
Capital lease and software obligations	\$44,978,598	135,464
Less current portion	15,230,761	68,110
Noncurrent portion of capital leases and software obligations	\$29,747,837	67,354

At December 31, 2003, the present value of the future minimum lease payments under capital leases and software agreements are summarized as follows:

	2004	\$18,248,724
	2005	15,788,312
	2006	15,959,933
	2007	991,468
	2008	243,465
Total minimum lease payments		51,231,902
Less amount representing interest		6,253,304
		\$44,978,598

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

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 not quantifiable, are believed to be adequately covered by insurance, or if not covered, are believed to be without merit or are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably.

The Company has received notification from the United States Attorneys' Office for the Northern District of California that the United States Department of Justice is investigating whether the Company and/or one of its large credit card processing clients violated the False Claims Act, 31 U.S.C. §§3729-33, in connection with mailings made on behalf of the client from July 1997 through November 2001. Although the exact scope of the investigation is not clear, the Company believes that the subject matter of the investigation relates to the U.S. Postal Service's Move Update Requirements. In general, the Postal Service's Move Update Requirements are designed to reduce the volume of mail that is returned to sender as undeliverable as addressed. In effect, these requirements provide, among other things, various procedures that may be utilized to maintain the accuracy of mailing lists in exchange for discounts on postal rates. The Company has received a subpoena from the Office of the Inspector General of the U.S. Postal Service, and has produced documents responsive to the subpoena, and expects to provide further documentation to the government in connection with this investigation. The Company intends to fully cooperate with the Department of Justice in the investigation and there can be no assurance as to the timing or outcome of the investigation, including whether the investigation will result in any criminal or civil fines, penalties, judgments or treble damage or other claims against the Company. The Company is not in a position to estimate whether or not any loss may arise out of this investigation. As a result, no reserve or accrual has been recorded in the Company's financial statements relating to this matter.

NOTE 10 Supplemental Balance Sheet and Cash Flow Information

BALANCE SHEET

Cash and Cash Equivalents

Cash and cash equivalent balances at December 31 are summarized as follows:

	2003	2002
Cash and cash equivalents in domestic accounts	\$ 80,812,191	84,462,671
Cash and cash equivalents in accounts outside the United States	42,061,398	24,708,535
Total cash and cash equivalents	\$122,873,589	109,171,206

The Company maintains accounts outside the United States denominated in U.S. dollars, Euros, British Pounds Sterling, Canadian dollars and Japanese Yen. All amounts in domestic accounts are denominated in US dollars.

Prepaid Expenses and Other Current Assets

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

	2003	2002
Prepaid expenses	\$11,667,557	8,228,801
Supplies	3,543,896	3,186,035
Other	7,552,768	11,132,754
Total	\$22,764,221	22,547,590

Contract Acquisition Costs

Significant components of contract acquisition costs at December 31 are summarized as follows:

	2003	2002
Payments for processing rights, net	\$ 84,448,275	89,740,749
Conversion costs, net	41,023,369	33,988,219
Total	\$125,471,644	123,728,968

Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was \$13.1 million, \$10.6 million and \$6.2 million for 2003, 2002 and 2001, respectively.

Amortization expense related to conversion costs was \$7.7 million, \$3.5 million and \$385,000 for 2003, 2002 and 2001, respectively. The Company had certain contractual obligations related to the timing and accuracy of conversions.

The weighted average estimated lives of payments for processing rights was approximately 9.95 years for the year ended December 31, 2003 with weighted average remaining useful lives of 6.41 years.

The weighted average estimated lives of conversion costs was approximately 7.35 years for the year ended December 31, 2003 with weighted average remaining useful lives of 4.76 years.

Estimated future amortization expense on payments for processing rights and conversion costs as of December 31, 2003 for the next five years is:

	Payments for Processing Rights	Conversion Costs
2004	\$13,636,299	10,862,622
2005	13,429,542	10,783,380
2006	12,768,250	8,362,889
2007	10,840,495	2,941,757
2008	10,337,459	2,731,339

Goodwill

The changes in the carrying amount of goodwill at December 21, 2003 and 2002 are as follows:

	Domestic-based services	International-based services	Consolidated
Balance as of December 31, 2001	\$ 2,031,109	1,577,123	\$ 3,608,232
Currency translation adjustments	---	10,946	10,946
Balance as of December 31, 2002	2,031,109	1,588,069	3,619,178
Acquisition of ESC	25,992,036	---	25,992,036
Currency translation adjustments	---	14,628	14,628
Balance as of December 31, 2003	\$28,023,145	1,602,697	\$29,625,842

Other Current Liabilities

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

	2003	2002
Accrued expenses	\$16,879,821	16,590,984
Client postage deposits	11,518,507	16,054,531
Deferred revenues	11,639,498	8,554,131
Client liabilities	7,804,125	3,629,663
Transaction processing provisions	5,090,509	5,347,010
Dividends payable	3,936,405	3,448,709
Other	7,186,815	6,607,861
Total	\$64,055,680	60,232,889

CASH FLOW

The Company has recorded \$42.2 million as the present value of payments under software arrangements as computer software and an obligation under software arrangements, previously accounted for incorrectly and disclosed as operating lease commitments. This correction was not material to the Company's financial position, results of operations or cash flows in prior periods. Under these agreements, the Company has negotiated substantial price discounts and the right to use the software perpetually up to certain levels of capacity. These liabilities will be satisfied with scheduled annual payments that generally increase each year. A portion of the annual payments relates to software maintenance and is expensed over the respective maintenance periods. The Company has also acquired computer equipment in the amount of \$3.1 million under a capital lease.

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

Because the acquisition of TDM was a transaction between entities under common control, the Company is reflecting the acquisition at historical cost in accordance with SFAS No. 141.

NOTE 11 Segment Reporting, including Geographic Area Data and Major Customers

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 (SFAS No. 131), "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 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 area data and major customers.

In the fourth quarter of 2003, the Company revised its segment information to reflect the information that the chief operating decision makers (CODMs) use to make resource allocations and strategic decisions. The CODMs at TSYS consist of the chairman of the board, the chief executive officer, the president and the three executive vice presidents. The revision moved TSYS Canada from the international-based services into the domestic-based services. TSYS Canada's sole purpose is to provide processing services to TSYS.

With the acquisition of ProCard and subsequent restatement (detailed in Note 12 Acquisitions), the Company restated prior period segment information to reflect the restatement for ProCard. ProCard's results are included in domestic-based services.

With the Company's expansion in Europe and its strategic decision to further expand its business internationally, combined with the integration of its business process management and e-commerce subsidiaries, the Company revised its segment information in the first quarter of 2002 to reflect the information that the CODMs use to make resource allocations and strategic decisions.

Through online accounting and electronic payment processing systems, TSYS provides electronic payment processing services and other related services to card-issuing institutions in the United States, Mexico, Canada, Honduras, Europe and the Caribbean. The reportable units are segmented based upon geographic locations. The domestic-based services include electronic payment processing services and other services provided from the Company's facilities in the United States. The domestic-based services segment includes the financial results of TSYS, excluding its foreign branch offices, and the following subsidiaries: CDEC, CPI, TSYS Canada, TDM, ProCard and ESC. The Company's share of the equity in income of Vital is included in the domestic-based segment because Vital's operations and client base are located in the United States.

International-based services include electronic payment processing services and other services provided outside the United States. International-based services include the financial results of GP Net and TSYS' branch offices in Europe and Japan. The Company's share of the equity in income of TSYS de México is included in the international-based segment because TSYS de México's operations and client base are located outside the United States.

Operating Segments	Domestic-based services	International-based services	Consolidated
2003			
Total revenue	\$973,251,890	80,288,103	\$1,053,539,993
Intersegment revenue	(74,080)	---	(74,080)
Revenue from external customers	\$973,177,810	80,288,103	\$1,053,465,913
Depreciation and amortization	\$ 87,555,389	10,860,028	\$ 98,415,417
Segment operating income	\$179,579,731	10,999,246	\$ 190,578,977
Income tax expense	\$ 66,790,560	4,077,615	\$ 70,868,175
Equity in income of joint ventures	\$ 16,665,805	1,144,541	\$ 17,810,346
Net income	\$133,859,727	7,113,240	\$ 140,972,967
Average accounts on file	249,488,918	13,129,229	262,618,147
Identifiable assets	\$994,821,882	139,028,043	\$1,133,849,925
Intersegment eliminations	(132,613,428)	---	(132,613,428)
Total assets	\$862,208,454	139,028,043	\$1,001,236,497
2002			
Total revenue	\$ 890,830,320	64,948,732	\$ 955,779,052
Intersegment revenue	(646,221)	---	(646,221)
Revenue from external customers	\$ 890,184,099	64,948,732	\$ 955,132,831
Depreciation and amortization	\$ 65,284,402	8,729,085	\$ 74,013,487
Segment operating income	\$ 155,974,080	1,698,393	\$ 157,672,473
Income tax expense	\$ 56,841,431	1,066,469	\$ 57,907,900
Equity in income of joint ventures	\$ 19,752,960	828,144	\$ 20,581,104
Net income	\$ 123,145,684	2,659,287	\$ 125,804,971
Average accounts on file	220,383,168	11,763,812	232,146,980
Identifiable assets	\$ 774,290,472	91,868,490	\$ 866,158,962
Intersegment eliminations	(86,665,638)	---	(86,665,638)
Total assets	\$ 687,624,834	91,868,490	\$ 779,493,324
2001			
Total revenue	\$ 859,113,429	33,214,304	\$ 892,327,733
Intersegment revenue	(6,562)	---	(6,562)
Revenue from external customers	\$ 859,106,867	33,214,304	\$ 892,321,171
Depreciation and amortization	\$ 52,765,659	5,711,864	\$ 58,477,523
Segment operating income	\$ 154,520,377	(16,817,274)	\$ 137,703,103
Income tax expense	\$ 60,315,897	(6,424,238)	\$ 53,891,659
Equity in income of joint ventures	\$ 15,985,120	1,839,335	\$ 17,824,455
Net income	\$ 114,604,567	(10,186,338)	\$ 104,418,229
Average accounts on file	199,979,247	6,108,809	206,088,056
Identifiable assets	\$ 657,053,855	91,055,108	\$ 748,108,963
Intersegment eliminations	(91,416,217)	(138,556)	(91,554,773)
Total assets	\$ 565,637,638	90,916,552	\$ 656,554,190

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

GEOGRAPHIC AREA DATA: The following geographic area data represents revenues for the years ended December 31 based on where the client is located.

<i>(in millions)</i>	2003	%	2002	%	2001	%
United States	\$ 863.0	82.0	\$ 816.0	85.4	\$ 798.7	89.5
Canada*	75.9	7.2	42.8	4.5	41.1	4.6
Europe	68.6	6.5	54.6	5.7	23.9	2.7
Mexico	31.4	3.0	29.2	3.1	16.9	1.9
Japan	12.1	1.1	10.3	1.1	9.6	1.1
Other	2.5	0.2	2.2	0.2	2.1	0.2
Totals	\$1,053.5	100.0	\$ 955.1	100.0	\$ 892.3	100.0

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

GEOGRAPHIC AREA REVENUE BY OPERATING SEGMENT: The following table reconciles segment revenue to revenues by geography for the years ended December 31:

<i>(in millions)</i>	Domestic-based services			International-based services		
	2003	2002	2001	2003	2002	2001
United States	\$863.0	816.0	798.7	---	---	---
Canada*	75.9	42.8	41.1	---	---	---
Europe	0.3	---	---	68.3	54.6	23.9
Mexico	31.4	29.2	16.9	---	---	---
Japan	0.1	---	---	12.0	10.3	9.6
Other	2.5	2.2	2.1	---	---	---
Totals	\$973.2	890.2	858.8	80.3	64.9	33.5

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

<i>(in millions)</i>	At December 31,	
	2003	2002
United States	\$192.7	97.0
Europe	37.2	22.1
Japan	2.0	1.6
Canada	0.2	0.1
Totals	\$232.1	120.8

MAJOR CUSTOMERS: For the years ended December 31, 2003, 2002 and 2001, the Company had two major customers which accounted for approximately 28.6%, 31.9% and 36.8%, respectively, of total revenues. Revenues from major customers for the years reported are attributable to the domestic-based services segment.

	(in millions)					
	Years Ended December 31,					
	2003		2002		2001	
Revenue:	Dollars	% of Total Revenues	Dollars	% of Total Revenues	Dollars	% of Total Revenues
One	\$191.9	18.2	\$ 177.8	18.6	\$ 162.8	18.3
Two	109.7	10.4	126.5	13.3	165.0	18.5
Totals	\$301.6	28.6	\$ 304.3	31.9	\$ 327.8	36.8

NOTE 12 Acquisitions

Enhancement Services Corporation

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

ProCard, Inc.

On November 1, 2002, TSYS completed the acquisition of ProCard from Synovus for \$30.0 million in cash. ProCard is a leader in customized, Internet, Intranet and client/server software solutions for commercial card management programs.

The Company believes the acquisition of ProCard strengthens TSYS' ability to market commercial card processing with a full array of products and customized services, provides access to new clients, and complements TSYS' international expansion efforts.

Due to the technological nature of the business, TSYS has assisted in the management of ProCard since Synovus acquired it in May 2000. Revenues associated with ProCard's business are recorded in electronic payment processing services and are classified in domestic-based services for segment reporting purposes. ProCard operates as a wholly owned subsidiary of TSYS.

Because the acquisition of ProCard was a transaction between entities under common control, the Company is reflecting the acquisition at the historical cost of the net assets acquired in accordance with SFAS No. 141. In accordance with the provisions of SFAS No. 141, TSYS has restated its consolidated financial statements to include the financial results of ProCard for periods prior to the acquisition that Synovus controlled both ProCard and TSYS to include the financial position, results of operations and cash flows of ProCard since May 2000.

TSYS Total Debt Management, Inc.

Effective January 1, 2002, TSYS acquired TDM from Synovus in exchange for 2,175,000 newly issued shares of TSYS common stock with a market value of approximately \$43.5 million at the date of acquisition. The Company believes the acquisition of TDM assists in broadening the services the Company offers through debt collection and bankruptcy management services. Prior to the acquisition, TDM operated as a wholly owned subsidiary of Synovus Financial Corp., providing third-party collection services. Revenues associated with TDM's business are recorded in other services and are classified in domestic-based services for segment reporting purposes. TDM operates as a wholly owned subsidiary of TSYS.

Because the acquisition of TDM was a transaction between entities under common control, the Company has reflected the acquisition at historical cost in accordance with SFAS No. 141 and has reflected the results of operations of TDM in the Company's consolidated financial statements beginning January 1, 2002. The Company did not restate periods prior to 2002 because such restatement was not significant.

Presented below are the pro forma consolidated results of TSYS' operations for the years ended December 31, 2003, 2002 and 2001, respectively, as though the acquisitions of ESC and TDM had occurred at the beginning of 2001. This pro forma information is based on the historical financial statements of ESC and TDM. Pro forma results do not include any actual or anticipated cost savings or expenses of the planned integration of TSYS, ESC and TDM, and are not necessarily indicative of the results which would have occurred if the business combination had been in effect on the dates indicated, or which may result in the future.

	Years Ended December 31,		
	2003	2002	2001
Revenues	\$1,058,719,601	967,930,601	917,437,224
Net income	41,340,159	126,651,093	100,736,156
Basic earnings per share	0.72	0.64	0.51
Diluted earnings per share	0.72	0.64	0.51

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, 2003 and 2002, 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, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Total System Services, Inc. and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

January 15, 2004

REPORT OF FINANCIAL RESPONSIBILITY

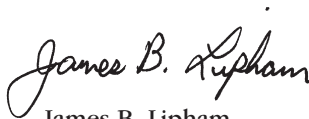
The management of Total System Services, Inc. is responsible for the integrity and objectivity of the consolidated financial statements and other financial information presented in this report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgments 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 judgment with respect to the relative cost and expected benefits of specific control measures. The Company also maintains an internal auditing function which evaluates and reports on the adequacy and effectiveness of internal accounting controls and policies and procedures.

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



Philip W. Tomlinson
Chief Executive Officer



James B. Lipham
Executive Vice President & Chief Financial Officer



Dorenda K. Weaver
Group Executive & Controller



Ronald L. Barnes
Group Executive & General Auditor

QUARTERLY FINANCIAL DATA, STOCK PRICE, DIVIDEND INFORMATION

TSYS' common stock trades on the New York Stock Exchange (NYSE) under the symbol "TSS." Price and volume information appears under the abbreviation "TotlSysSvc" in NYSE daily stock quotation listings. As of February 17, 2004, there were 11,319 holders of record of TSYS common stock, some of whom are holders in nominee name for the benefit of different shareholders.

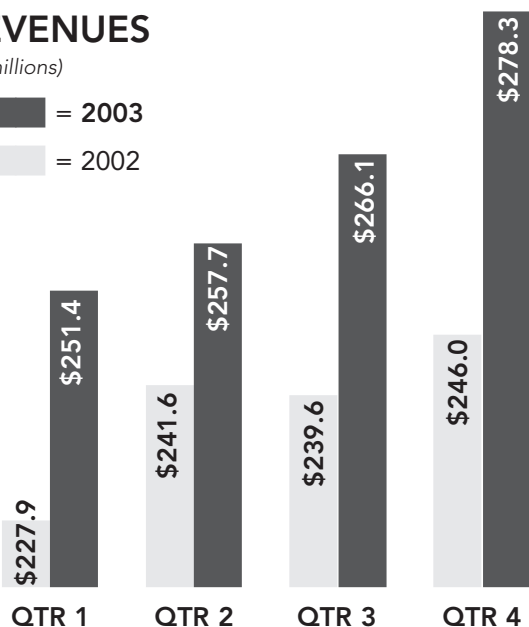
The fourth quarter dividend of \$.02 per share was declared on November 19, 2003, and was paid January 2, 2004, to shareholders of record on December 19, 2003. Total dividends declared in 2003 and in 2002 amounted to \$15.3 million and \$13.3 million, respectively. It is the present intention of the 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, 2003 and 2002.

REVENUES

(in millions)

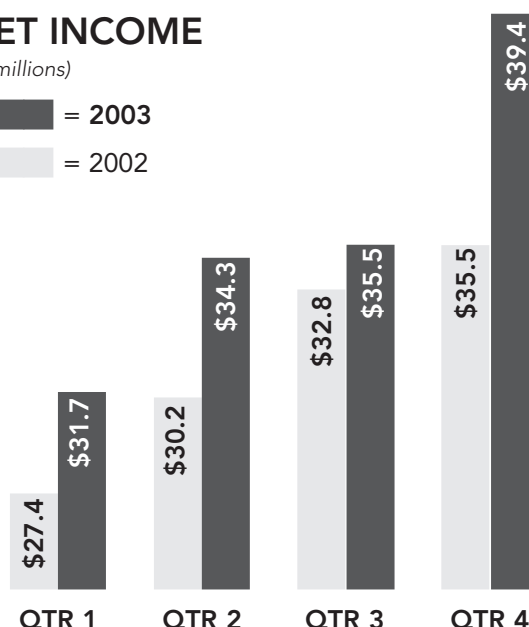
■ = 2003
■ = 2002



NET INCOME

(in millions)

■ = 2003
■ = 2002



		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>(in thousands except per share data)</i>					
2003	Revenues	\$251,353	257,698	266,115	278,300
	Operating income	43,168	44,755	48,900	53,756
	Net income	31,736	34,307	35,512	39,418
	Basic earnings per share	0.16	0.17	0.18	0.20
	Diluted earnings per share	0.16	0.17	0.18	0.20
	Cash dividends declared	0.018	0.020	0.020	0.020
	Stock prices				
	High	17.12	23.20	26.99	31.50
	Low	13.25	15.39	22.49	26.07
	2002	Revenues	\$227,923	241,606	239,607
Operating income		35,972	38,274	40,664	42,762
Net income		27,382	30,151	32,816	35,456
Basic earnings per share		0.14	0.15	0.17	0.18
Diluted earnings per share		0.14	0.15	0.17	0.18
Cash dividends declared		0.015	0.018	0.018	0.018
Stock prices					
High		29.44	25.85	19.35	14.29
Low		20.68	18.31	12.73	11.01