

## 2002 FINANCIAL APPENDIX



SELECTED FINANCIAL DATA .....	F-2
FINANCIAL REVIEW .....	F-3
CONSOLIDATED BALANCE SHEETS .....	F-20
CONSOLIDATED STATEMENTS OF INCOME .....	F-21
CONSOLIDATED STATEMENTS OF CASH FLOWS .....	F-22
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME .....	F-23
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....	F-24
REPORT OF INDEPENDENT AUDITORS .....	F-42
REPORT OF FINANCIAL RESPONSIBILITY .....	F-43
QUARTERLY FINANCIAL DATA, STOCK PRICE, DIVIDEND INFORMATION .....	F-44



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	
	2002	2001	2000	2002 vs 2001	2001 vs 2000
Revenues:					
Electronic payment processing services	64.7%	64.2	60.5	7.9	11.9
Other services	11.1	9.7	11.3	22.2	(9.0)
Revenues before reimbursable items	75.8	73.9	71.8	9.8	8.6
Reimbursable items	24.2	26.1	28.2	(0.8)	(2.1)
Total revenues	100.0	100.0	100.0	7.0	5.6
Expenses:					
Salaries and other personnel expense	31.4	30.0	28.5	12.1	11.3
Net occupancy and equipment expense	18.3	19.2	19.4	1.9	4.7
Other operating expenses	9.6	9.3	10.3	11.2	(6.3)
(Gain) loss on disposal of equipment, net	(0.0)	0.0	0.2	nm	nm
Expenses before reimbursable items	59.3	58.5	58.4	8.6	5.7
Reimbursable items	24.2	26.1	28.2	(0.8)	(2.1)
Total operating expenses	83.5	84.6	86.6	5.7	3.2
Operating income	16.5	15.4	13.4	14.5	21.3
Nonoperating income	0.6	0.3	0.7	96.4	(44.1)
Income before income taxes, minority interest and equity in income of joint ventures	17.1	15.7	14.1	16.2	18.5
Income taxes	6.1	6.0	5.5	7.5	15.6
Minority interest in consolidated subsidiary's net income	(0.0)	(0.0)	(0.0)	nm	nm
Equity in income of joint ventures	2.2	2.0	1.8	15.5	14.4
Net income	13.2%	11.7	10.4	20.5	19.3

## 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 position, liquidity and capital resources of TSYS and outlines the factors that have affected its recent earnings, as well as those factors that may affect its future earnings. The accompanying Consolidated Financial Statements and related Notes and Selected Financial Data are an integral part of this Financial Review and should be read in conjunction with it.

### Critical Accounting Policies

TSYS' (The Company's) financial position, 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.

**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.

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 \$8.0 million and \$5.4 million at December 31, 2002 and December 31, 2001, respectively. The allowance

represents 6.2% and 4.5% of total accounts receivable at December 31, 2002 and December 31, 2001, 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, 2002 was 49 days.

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 clients of accounts receivable write-offs and prior history of allowances in proportion to the overall accounts 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 and decreases 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 primarily 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 terms of processing contracts generally range from three to ten years in length.

The Company's other service revenues are derived from recovery collections work, bankruptcy process management, legal account management, skip tracing, commercial printing

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

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

The amortization of contract acquisition costs associated with cash payments is recorded net 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 on the basis of whether these costs are fully recoverable from expected undiscounted net operating cash flows of the related contract. The determination of expected undiscounted net operating cash flows requires management to make estimates.

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

**SOFTWARE DEVELOPMENT COSTS:** The Company develops software that is used in providing electronic payment processing and other services to clients. Software development costs are capitalized once technological feasibility of the software product has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed a detail program design and has determined that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available to clients for general use. The Company evaluates the unamortized capitalized costs of software development as compared to the net realizable value of the software product which is determined by future undiscounted net cash flows. The amount by which the unamortized software development costs exceed the net realizable value is written off in the period that such determination is made. Software development costs are amortized using the greater of (1) the

straight-line method over its estimated useful life, which ranges from three to ten years or (2) the ratio of current revenues to total anticipated revenue over its useful life.

The Company also develops software that is used internally. Software development costs that are modifications to existing internal-use software that result in additional functionality 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 unless another systematic and rational basis is more representative of the software's use.

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.

**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:** The Company reviews long-lived assets, such as property and equipment and intangibles subject to amortization, such as contract acquisition costs and computer software, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying

amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

### Related Party Transactions

At December 31, 2002, Columbus Bank and Trust Company (CB&T) owned 159,630,980 shares (81.0%) of TSYS common stock.

#### *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. from Synovus Financial Corp. (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 Financial Accounting Standards Board's Statement No. 141 (SFAS 141). In accordance with the provisions of SFAS 141, TSYS has restated its consolidated financial statements 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.

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 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 \$85.7 million and \$48.6 million at December 31, 2002 and 2001, respectively.

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

TSYS maintains an unsecured credit agreement with CB&T. The credit agreement has a maximum available principal balance of \$5.0 million, with interest at prime. TSYS did not use the credit facility during 2002, 2001 or 2000.

TSYS paid cash dividends to CB&T in the amount of approximately \$10.3 million, \$9.1 million and \$7.1 million in 2002, 2001 and 2000, respectively. TSYS received cash dividends from its equity method joint ventures of approximately \$17.9 million, \$7.1 million and \$5.4 million in 2002, 2001 and 2000, 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, 2002 and 2001, the Company had accounts receivable balances of \$1.6 million and \$1.3 million, respectively, associated with related parties. At December 31, 2002 and 2001, the Company had accounts payable balances of \$76,188 and \$68,963, respectively, associated with related parties. At December 31, 2002 and 2001, the Company had a current liability related to trustee fees payable to Synovus of \$87,461 and \$79,532, 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, 2002, 2001 and 2000:

	2002	2001	2000
Electronic payment processing services:			
Vital	\$15,116,769	15,069,633	14,133,348
CB&T and affiliates	3,425,785	3,274,862	3,333,229
Synovus and nonbanking affiliates	488,148	433,223	236,226
TSYS de México	44,788	15,961,010	15,808,559
Total electronic payment processing services	\$19,075,490	34,738,728	33,511,362
Other services:			
CB&T and affiliates	\$ 5,575,853	5,789,004	6,105,258
Synovus and nonbanking affiliates	959,250	641,701	487,774
Vital	28,121	22,447	12,323
Total other services	\$ 6,563,224	6,453,152	6,605,355
Reimbursable items:			
Vital	\$ 8,464,318	7,569,155	857,637
CB&T and affiliates	1,173,370	1,065,103	1,123,696
Synovus and nonbanking affiliates	53,781	243,582	536,025
TSYS de México	237,519	958,400	820,584
Total reimbursable items	\$ 9,928,988	9,836,240	3,337,942

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, 2002, 2001 and 2000 by expense category:

	2002	2001	2000
Salaries and other personnel expense:			
Trustee fees paid to Synovus	\$ 525,189	558,303	345,018
Total salaries and other personnel expense	\$ 525,189	558,303	345,018
Net occupancy and equipment expense:			
Rent paid to TSYS by CB&T	\$ (39,405)	(39,405)	(39,405)
Rent paid to Synovus by TSYS	377,285	211,878	20,807
Rent paid to TSYS by Synovus	(537,140)	(454,926)	(197,597)
Total net occupancy and equipment expense	\$ (199,260)	(282,453)	(216,195)
Other operating expenses:			
Management fees paid to Synovus	\$8,078,484	8,606,544	9,774,099
Management fees paid by Synovus	-	(1,497,000)	(504,967)
Processing support fees paid to			
TSYS de México	916,538	300,587	-
Service fees paid to Vital	325,000	-	-
Data processing service fees paid			
to TSYS by Synovus	(24,900)	(24,900)	(88,706)
Data processing service fees paid to Vital	123,381	327,240	273,291
Lockbox fees paid to Synovus	-	100,697	1,688,676
Banking service fees paid by TSYS			
to CB&T	43,479	46,345	68,004
Total other operating expenses	\$9,461,982	7,859,513	11,210,397

Prior to the acquisition of ProCard by TSYS, Synovus paid TSYS a management fee for assisting in managing ProCard. The management fee was \$252,500, \$303,000 and \$176,544 in 2002, 2001 and 2000, respectively.

Nonoperating Income	2002	2001	2000
Interest income from CB&T	\$1,082,405	2,305,617	4,772,461

### 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 2002, 2001 and 2000 as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Number of shares under options	<u>147,548</u>	<u>3,069,055</u>	<u>492,309</u>
Weighted average exercise price	<u>\$26.50</u>	<u>\$28.60</u>	<u>\$12.50</u>

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 ownership risk of technological obsolescence. Neither the assets nor obligations related to these leases are included in the accompanying consolidated balance sheets. One of the Company's most significant leases is its synthetic lease for its corporate campus (see the discussion under Additional Cash Flow Information - Off-Balance Sheet Financing and Contractual Cash Obligations and Note 9 to the Consolidated Financial Statements).

### 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, FASB issued Statement No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 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 also records a corresponding asset that is depreciated 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 is required to adopt SFAS 143 on January 1, 2003. The adoption of SFAS 143 is not expected to 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 145), "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 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 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 is applied in fiscal years beginning after May 15, 2002. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002. The adoption of SFAS 145 is not expected to 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 are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has one lease guarantee which is described in Note 9 to these consolidated financial statements.

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 00-21 (EITF 00-21), "Accounting for Revenue Arrangements with Multiple Deliverables." EITF 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 00-21 addresses how to account for those arrangements. EITF 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. Management has not yet determined the effect or its adoption alternative of EITF 00-21 on TSYS' financial position, results of operations and cash flows.

In December 2002, the FASB issued Statement No. 148 (SFAS 148), "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS 148 amends FASB Statement No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual

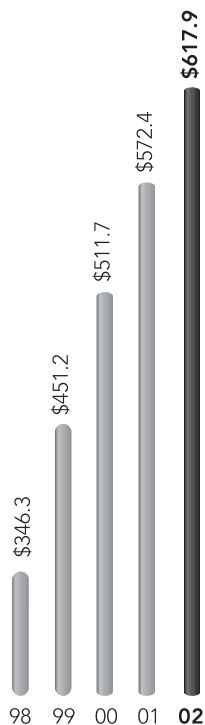
and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For enterprises such as the Company with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

In 2002, the Company renewed its operating lease agreement with a special purpose entity (SPE) for the Company's corporate campus. If the financing arrangement for the campus is not restructured, Interpretation No. 46 will require TSYS to consolidate the SPE effective with the reporting period beginning July 1, 2003. The estimated fair value of the campus buildings and real property at January 1, 2003 was approximately \$93.0 million. Consolidation would also require TSYS to consolidate the SPE's results of operations, including depreciation and interest expense. The Company can withdraw from the lease agreement by providing a 60-day written notice. Management is currently evaluating its alternatives with respect to the campus financing and the impact Interpretation No. 46 will have on the Company's financial position, results of operations and cash flows if the Company is required to consolidate the operations of the SPE.

**ELECTRONIC PAYMENT PROCESSING SERVICES REVENUES**

(Millions of Dollars)



**Results of Operations**

**Revenues**

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

(in millions)	2002		2001		2000		Percent Change:	
	AOF	%	AOF	%	AOF	%	2002 vs 2001	2001 vs 2000
	Consumer	<b>148.8</b>	<b>60.5</b>	127.2	58.2	90.7	46.5	16.9
Retail	<b>77.3</b>	<b>31.4</b>	73.5	33.6	90.1	46.2	5.2	(18.5)
Commercial	<b>19.8</b>	<b>8.1</b>	17.8	8.2	14.4	7.3	11.5	23.8
Total	<b>245.9</b>	<b>100.0</b>	218.5	100.0	195.2	100.0	12.5	11.9

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).

### **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.

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

Electronic payment processing services revenues increased 7.9%, or \$45.5 million, for the year ended December 31, 2002, compared to the year ended December 31, 2001, which increased 11.9%, or \$60.7 million, compared to the year ended December 31, 2000.

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

ensuing weeks, those processing volumes returned to normal levels as consumers resumed their daily activities. TSYS did not experience any material negative financial impact as a result of the September 11th terrorist attacks. The Company has experienced a delay by potential clients of pursuing processing agreements as those clients focus on matters such as disaster recovery and other internal processes. Future terrorist attacks or war may result in the Company experiencing lower than anticipated transaction and authorization volumes which may have a material adverse effect on the Company's financial position, results of operations and cash flow.

Based upon available market share data that includes cards processed in-house, the Company believes it has a 21% market share of the domestic Visa and MasterCard consumer card processing arena; an 86% share of the Visa and MasterCard domestic commercial card processing market; an 18% 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 2002. 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 card processing services to its clients issuing commercial, retail and consumer cards. Commercial cards include purchasing cards, corporate cards and fleet cards for employees. Retail cards include private label and gift cards. Consumer cards include Visa and MasterCard bank and debit cards as well as student loan accounts, American Express cards and stored value cards. The table above summarizes TSYS' accounts on file (AOF) by portfolio type at December 31, 2002, 2001 and 2000.

The average number of cardholder accounts on file increased 12.6% to 232.1 million in 2002, compared to 206.1 million in 2001, which represented a 5.9% increase over 194.6 million in 2000. At December 31, 2002, TSYS' cardholder accounts on file were approximately 245.9 million, compared to 218.5 million and 195.2 million at December 31, 2001 and 2000, respectively. The change in cardholder accounts on file at December 31, 2002, as compared to December 31, 2001, included the purging of 9.7 million accounts, the addition of approximately 22.9 million accounts attributable to the internal growth of existing clients, and approximately 14.2 million accounts added for new clients. The change in

(in millions)	2002		2001		2000		Percent Change:	
	AOF	%	AOF	%	AOF	%	2002 vs 2001	2001 vs 2000
Domestic	<b>215.4</b>	<b>87.6</b>	190.4	87.1	178.4	91.4	13.1	6.6
International	<b>30.5</b>	<b>12.4</b>	28.1	12.9	16.8	8.6	8.3	66.9
Total	<b>245.9</b>	<b>100.0</b>	218.5	100.0	195.2	100.0	12.5	11.9

cardholder accounts on file at December 31, 2001, as compared to December 31, 2000, included the deconversion of 5.1 million accounts, the purging of 11.8 million accounts, the addition of approximately 24.2 million accounts attributable to the internal growth of existing clients, and approximately 16.0 million accounts added for new clients.

At December 31, 2002, TSYS was processing approximately 148.8 million consumer card accounts, a 16.9% increase from the approximately 127.2 million being processed at year-end 2001, which was a 40.3% increase over the 90.7 million at year-end 2000. The increase in consumer accounts in 2002 was primarily the result of the internal growth of existing clients, the transformation by clients of their portfolio mix from retail cards to consumer cards, and the addition of student loan accounts. The increase in consumer accounts in 2001 was primarily the result of converting the portfolios of The Royal Bank of Scotland Group plc (RBS) and Allied Irish Banks plc (AIB). Future growth in consumer card revenue is dependent upon increased card activity, continued internal growth in existing clients' portfolios and the acquisition of new clients. Also impacting the increase in consumer cards is the number of retail card accounts that are being converted to consumer card accounts (more information is provided in the discussion of retail card accounts below.)

In April 2002, the Company announced that it had entered into a long-term agreement with Accenture valued in excess of \$120 million to provide processing services for the U.S. Department of Education. TSYS began processing all student loan originations for the Department of Education on April 26, 2002, and was processing 5.4 million student loan accounts at December 31, 2002. The agreement also involves converting all existing student loan accounts to TSYS during several phases. The conversion phases are scheduled to be completed in the third quarter of 2003, and TSYS estimates it will be processing a total of 11 million student loan accounts after completion of these conversions.

TSYS is a major third-party processor of retail accounts. At December 31, 2002, TSYS was processing approximately 77.3 million retail card accounts, a 5.2% increase over the approximately 73.5 million being processed at year-end 2001, which represented an 18.5% decrease over the 90.1 million at year-end 2000. The increase in retail accounts in 2002 was the result of adding 7.1 million retail accounts for a new client, offset by the portfolio "flip" of retail accounts to a MasterCard

portfolio. The majority of the 16.6 million decrease in retail accounts in 2001, as compared to 2000, was the result of a portfolio "flip" of retail accounts to a MasterCard portfolio. Traditional retail card operations are beginning to increase the activity of their portfolios by converting inactive accounts to Visa or MasterCard accounts. TSYS is able to provide its extensive processing tools and techniques, as well as value-added functionality, to traditional retail card operations allowing better segmentation and potentially increased profitability for clients.

TSYS also provides processing services for commercial cards. At December 31, 2002, TSYS was processing approximately 19.8 million commercial card accounts, an 11.5% increase over the 17.8 million commercial card accounts being processed at year-end 2001, which was a 23.8% increase over the approximately 14.4 million being processed at year-end 2000. Future growth in commercial card revenue is expected to result from increased card activity as more business purchasing is transacted electronically and as additional firms realize the benefits of converting their paper-based purchasing systems to electronic transactions.

TSYS provides processing services to its clients worldwide and plans to continue to expand its service offerings internationally in the future. In 2000, the Company announced the signing of RBS and AIB to multiyear processing agreements. The portfolios of both clients, approximately nine million accounts, were fully converted by the third quarter of 2001. The table above summarizes TSYS' AOF by area based on the geographic domicile of processing clients at December 31, 2002, 2001 and 2000.

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 is expected to be 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 other CIBC card products since 1994.

The Company's electronic payment processing service 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 that 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, such as loyalty programs and bonus rewards. For the years ended December 31, 2002, 2001 and 2000, value added products and services represented 12.7%, 11.7% and 10.4% of total revenues, respectively. Revenues from these products and services increased 16.3%, or \$17.0 million, for 2002 compared to 2001, and increased 19.1%, or \$16.7 million, for 2001 compared to 2000. The Company changed its accounting policy in early 2001 for recognizing revenue for one of the value added products and services it offers clients. Prior to that time, the Company was recognizing revenue one month in arrears. Due to the availability of historical data the Company has accumulated over a period of time, the Company determined that it could reasonably estimate its monthly revenue with some precision. During 2001, the Company recognized, as a result of the change, thirteen months of revenue, or an additional \$1.4 million, for this one value added product and service.

In 2000, the Company announced that it had entered the Asian card market by purchasing a controlling equity interest in GP Network Corporation (GP Net), an established electronic payment processing company for more than 100,000 merchants in Japan. GP Net's revenues are included in electronic payment processing revenues and were not significant to total revenues during 2002, 2001 or 2000. In 2000, TSYS also opened a branch office in Japan to facilitate its start-up of processing services for card-issuing financial institutions and retailers in the Asia Pacific region.

### **Other Services**

Revenues from other services consist primarily of revenues generated by mail and correspondence processing services, teleservicing, data documentation capabilities, offset printing, client service, collections and account solicitation services. Revenues associated with TSYS' wholly owned subsidiaries, Columbus Depot Equipment Company (CDEC), Columbus Productions, Inc. (CPI) and TDM are included in other service revenues. 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.

Revenues from other services increased \$19.3 million, or 22.2%, in 2002, compared to 2001. In 2001, revenues from other services decreased \$8.5 million, or 9.0%, compared to 2000. The majority of revenues from other services are generated by TSYS business process management (BPM) services and TDM. The majority of the increase in 2002 relates to TDM, which TSYS acquired from Synovus effective January 1, 2002. During 2001, the largest client of BPM services

stopped outsourcing certain functions as a result of changes in economic uncertainties, business contraction and discontinuing certain services. As a result, BPM revenues during 2001 were negatively impacted.

### **Major Customers**

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.

Bank of America Corporation, a major customer, has a long-term processing agreement with the Company through 2009. Bank of America accounted for approximately 19%, 18% and 18% of total revenues for the years ended December 31, 2002, 2001 and 2000, 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.

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 13%, 19% and 16% of total revenues for the years ended December 31, 2002, 2001 and 2000, respectively.

In late 2001, Providian made several announcements regarding concerns about its financial status, related changes in management and the sale of a portion of its portfolio. As a result of these announcements, TSYS management is actively monitoring Providian's status through frequent interaction. The loss of Providian, or any other major or significant clients, could have a material adverse effect on the Company's financial position, results of operations and cash flows.

During 2002, Providian contracted with TSYS to perform back-up servicing in the case of default (trigger event) on its Gateway Master Trust portfolio. Based on contact with Providian's senior management, TSYS does not anticipate that the trigger event will occur. The revenues generated from providing back-up servicing for Providian have not had a material impact upon TSYS' revenues.

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 Items**

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 \$1.9 million, or 0.8%, in 2002, as compared to 2001. Reimbursable items decreased \$5.0 million, or 2.1%, in 2001, as compared to 2000. The decrease is 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 2002 to 83.5%, compared to 84.6% and 86.5% for 2001 and 2000, respectively. 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. The principal decreases in operating expenses as a percentage of revenue in 2001 as compared to 2000 resulted from a concerted emphasis on expense control, decrease in management fee income paid by Synovus, a focus on improved processes, lower provisions for bad debt expense, lower provisions for transaction processing accruals and a reduction in amortization of contract acquisition costs. Operating expenses were \$797.5 million in 2002, compared to \$754.6 million in 2001 and \$731.6 million in 2000.

Salaries and other personnel expense increased 12.1% in 2002 over 2001, compared to 11.3% in 2001 over 2000. A significant portion of TSYS' operating expenses relates to salaries and other personnel costs. During 2002, the average number of employees increased to 5,267, compared to 4,943 in 2001 and 4,697 in 2000. 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 \$53.1 million, \$40.3 million and \$28.6 million in 2002, 2001 and 2000, respectively, associated with the growth in the number of employees, normal salary

increases and related employee benefits. These increases were partially offset by \$42.9 million, \$22.2 million and \$9.1 million in 2002, 2001 and 2000, respectively, invested in software development and contract acquisition costs.

Due to the importance of technology to its business, a significant portion of TSYS' employees are programmers—approximately 23.1% in 2002, compared to 21.7% and 20.2% in 2001 and 2000, respectively. The Company participates in the state of Georgia's incentive program called Intellectual Capital Partnership Program (ICAPP). ICAPP is a commitment by the state of Georgia to provide classrooms, teachers, computer equipment and high-tech training designed to meet Georgia businesses' needs for technical analysts, computer systems personnel and mainframe programmers. As of December 31, 2002, approximately 729 graduates of ICAPP had become full-time employees of TSYS. The Company considers ICAPP to be a very successful program and plans to continue to utilize ICAPP in the future to fulfill entry-level programming and other technical positions. Although TSYS has not experienced difficulty in recruiting programming personnel, there can be no assurance that TSYS will be able to continue to recruit, hire and retain sufficient numbers of technical personnel necessary to support its continued growth.

Net occupancy and equipment expense increased 1.9% in 2002 over 2001, compared to 4.7% in 2001 over 2000. Depreciation and amortization expense increased \$5.9 million, or 12.9%, to \$51.5 million for the year ended December 31, 2002, compared to \$45.6 million for the year ended December 31, 2001, which increased \$7.9 million, or 20.9%, from \$37.7 million for the year ended December 31, 2000. Due to rapidly changing technology in computer equipment and software, TSYS' equipment and software needs are fulfilled primarily through operating leases. Equipment and software rental expense was \$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, a decrease of \$1.4 million, or 1.8%, compared to \$80.4 million for the year ended December 31, 2000. TSYS continues to make a concerted effort to improve processing productivity and implement cost controls.

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

In November 2002, the Company's operating lease agreement relating to the corporate campus expired. The Company had the option to either renew the lease subject to prevailing market rates or purchase the property at its original cost. The Company renewed the campus lease for a period of up to twelve months. The lease provides for a substantial residual value guarantee, up to \$81.4 million, and includes purchase options at the original cost of the property.

The terms of this lease financing arrangement require, among other things, that the Company maintain certain minimum financial ratios and provide certain information to the lessor. TSYS is also subject to interest rate risk associated with the lease on its campus facilities because of the short-term variable rate nature of the SPE's debt. The payments under the operating lease arrangement, which can be locked in for six-month intervals, are tied to the London Interbank Offered Rate (LIBOR) plus a margin ranging from 95 basis points to 185 basis points. In the event that LIBOR rates increase, operating expenses could increase proportionately.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities which have certain characteristics. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. This Interpretation applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest acquired before February 1, 2003.

If the arrangement described above is not restructured, Interpretation No. 46 will require TSYS to consolidate the operations of the SPE. The estimated fair value of the campus buildings and real property at January 1, 2003 was approximately \$93.0 million. TSYS will also be required to consolidate the SPE's results of operations, including depreciation and interest expense. The Company can withdraw from the lease agreement by providing a 60-day written notice. Management is currently evaluating its alternatives with respect to the campus financing and the impact Interpretation No. 46 will have on the Company's financial position, results of operations and cash flows.

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

infrastructure in order to begin processing those accounts in 2001. Through 2001, the Company incurred \$16.4 million of operating expenses, net of revenues, related to the expansion in Europe.

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

Other operating expenses increased 11.2% in 2002 compared to 2001, and decreased 6.3% in 2001 compared to 2000. Other operating expenses were impacted by the 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. Amortization of contract acquisition costs associated with conversions was \$3.5 million, \$387,000 and \$3.2 million in 2002, 2001 and 2000, respectively. For 2002, 2001 and 2000, transaction processing provisions were \$6.5 million, \$1.4 million and \$5.7 million, respectively. For 2002, 2001 and 2000, bad debt expense was \$2.7 million, \$683,000 and \$1.6 million, respectively. TSYS received \$1.5 million in 2001, and \$505,000 in 2000 for management services from Synovus related to TDM.

### **Operating Income**

Operating income increased 14.5% to \$157.7 million in 2002, compared to \$137.7 million in 2001, which was an increase of 21.3% over 2000 operating income of \$113.5 million. The operating income margin increased to 16.5% in 2002, compared to 15.4% and 13.5% in 2001 and 2000, 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. Excluding reimbursable items, the Company's operating profit margin for 2002 was 21.8%, compared to 20.9% and 18.7% in 2001 and 2000, respectively.

### **Nonoperating Income**

Nonoperating income increased in 2002 compared to 2001 and decreased in 2001 from 2000 primarily due to foreign currency translation gains and the amount of interest the Company earned on its cash investments.

Interest income for 2002 was \$2.6 million, a 5.9% decrease compared to \$2.8 million in 2001, which was a 46.0% decrease compared to \$5.2 million in 2000. The variation in interest income is primarily attributable to the fluctuations in the cash available for investment and lower short-term interest rates.

In 2002, the Company reclassified a portion of its investment in its UK operation to 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. As the Company translates the European operations' 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 company's financial statements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation. As a result of the favorable change in exchange rates, the Company recorded a foreign currency translation gain of \$3.0 million related to the Company's financing of its European operations during 2002. The balance outstanding on the financing at December 31, 2002 was approximately \$7.3 million.

As a result of providing financing through an intercompany loan to its UK operations, the Company has a greater exposure to currency risk. The Company is exploring potential hedging instruments to safeguard it from significant foreign currency translation risks.

#### **Income Taxes**

Income tax expense was \$57.9 million, \$53.9 million and \$46.6 million in 2002, 2001 and 2000, respectively, representing effective income tax rates of 31.5%, 34.0% and 34.7%, respectively. The calculation of the effective tax rate includes minority interest in consolidated subsidiary's net income and equity in income of joint ventures in pretax income. TSYS' decrease in its effective income tax rate for 2002 and 2001 was primarily due to the recognition of state and federal tax credits. The Company expects its tax rates in the future to increase over time as a 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 \$20.6 million, \$17.8 million and \$15.6 million for 2002, 2001 and 2000, respectively. The increase in 2002 and 2001 is primarily the result of Vital's improved operating results as a result of operating efficiencies and increased transaction volumes.

#### **Vital Processing Services L.L.C.**

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 2002, TSYS generated \$23.6 million of revenue from Vital, compared to \$22.7 million and \$15.0 million in 2001 and 2000, respectively.

During 2002, the Company's equity in income of joint ventures related to Vital was \$19.8 million, a 23.6% increase, or \$3.8 million, compared to \$16.0 million in 2001, which was a 20.8% increase, or \$2.8 million compared to \$13.2 million in 2000. Vital's improved operating efficiencies and growth in transaction volumes were the main factors in its improved financial results.

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. 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.

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

Processing contracts with large clients, representing a significant portion of Vital's total revenues, generally provide for discounts on certain services based on the volume of transactions processed by the client. 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 revenues being concentrated in a small number of customers.

Revenues for Vital increased \$24.6 million, or 11.0%, in 2002, compared to 2001. In 2001, revenues increased \$42.7 million, or 23.6%, compared to 2000. 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. The increase in 2001 over 2000 was primarily the result of increases in the number of transactions processed, the full year impact of Vital's terminal deployment business (purchased in July 2000) and the impact of reimbursable expenses (postage and express courier charges) that were previously billed directly to Vital's customers by TSYS.

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

In 1993, the Company reached an agreement to form a joint venture with a number of Mexican banks and recorded, and continues to record, 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), provided credit card related processing for the joint venture member banks and others. Recently, several joint venture participants have been acquired and have discontinued processing services with TSYS de México. This consolidation has resulted in TSYS de México having joint venture participants that are not also processing clients of the joint venture. In order to address this issue, during 2001, TSYS and its TSYS de México joint venture participants agreed to separate the electronic payment processing services that TSYS de México previously outsourced to TSYS from the primary services provided directly by the joint venture to its clients. The joint venture continues to print statements and provides card-issuing support services to the joint venture clients. As a result, new processing agreements were negotiated between the Mexican bank clients of the joint venture and TSYS.

The joint venture continues to share the profits among the joint venture participants from the services which the joint venture continues to provide. TSYS' ownership percentage continues to be 49% of the joint venture, and TSYS uses the equity method of accounting because it does not control the operations of the joint venture. The net effect of the restructuring has been minimal and is resulting in a decrease in equity in income of joint ventures while TSYS' electronic payment processing revenues and operating expenses increase. During 2002, the Company's equity in income of joint ventures related to TSYS de México was \$828,000, a 55.0% decrease, or \$1.0 million, compared to \$1.8 million in 2001, which was a 25.8% decrease, or \$640,000, compared to \$2.5 million in 2000. Electronic payment processing revenues from clients based in Mexico was \$29.2 million for 2002, a 72.5% increase over the \$16.9 million in 2001, which was a 1.7% increase over the \$16.6 million in 2000. The increase in revenues is attributable to increased account on file growth of approximately 29.3% and the restructuring of the joint venture agreement.

The Company has been notified by its largest client in Mexico that the client intends to utilize its internal global platform and does not plan on renewing its processing agreement with TSYS when it expires in the first quarter of 2003. However, the client has indicated that the deconversion may be delayed until the third quarter of 2003. This client represents approximately 56% of TSYS' revenues from Mexico. As a result, management expects that electronic payment processing revenues for 2003 from Mexico will decrease when compared to electronic payment processing revenues from Mexico for 2002 and 2001.

As a result of the restructuring of its joint 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 \$917,000 and \$301,000 in 2002 and 2001, respectively.

### **Net Income**

Net income increased 20.5% to \$125.8 million (basic and diluted earnings per share of \$0.64) in 2002, compared to 2001. In 2001, net income increased 19.3% to \$104.4 million (basic earnings per share of \$0.54 and diluted earnings per share of \$0.53), compared to \$87.5 million (basic and diluted earnings per share of \$0.45) in 2000.

### **Projected Outlook 2003**

TSYS expects its 2003 net income to exceed its 2002 net income by 12-15%. The assumptions underlying 2003's net income forecast are an increase in revenues (excluding reimbursables) between 9-10%, an internal growth rate of accounts of existing clients of approximately 11% and a continued focus on expense management. The forecast does not include any revenues or expenses associated with signing and converting a major client.

### **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 flows generated from operations and the use of borrowed funds and lease financing 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 2002, the Company generated \$197.6 million in cash from operating activities compared to \$90.6 million and \$168.0 million in 2001 and 2000, respectively.

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. The increase in 2000 in net cash provided from operating activities was driven by the increase in net income.

#### **Cash Flows From Investing Activities**

The major uses of cash provided by operations have been the internal development and purchase of computer software, the addition of property and equipment, primarily computer equipment, investments in contract acquisition costs associated with obtaining and serving new or existing clients, and business acquisitions, offset by cash dividends from joint ventures. The Company used \$134.4 million in cash for investing activities in 2002, compared to \$103.3 million and \$128.7 million in 2001 and 2000, respectively.

### **Property and Equipment**

Capital expenditures for property and equipment were \$14.8 million in 2002, compared to \$32.5 million in 2001 and \$33.2 million in 2000. During 2001 and 2000, the Company began building the infrastructure necessary to establish an operations facility in Europe, which resulted in higher capital expenditures in those years as compared to 2002.

### **Computer Software**

The Company added \$66.5 million, \$56.3 million and \$78.8 million in 2002, 2001 and 2000, respectively, in additions to computer software. The additions for all three years include purchased computer software and developed computer software as further described below.

#### **Purchased Computer Software**

Expenditures for purchased computer software were \$37.0 million in 2002, compared to \$36.8 million in 2001 and \$66.6 million in 2000. These additions relate to site licenses for mainframe processing systems. In 2000, the Company successfully negotiated a contract with one of its software vendors to provide a site license to benefit future periods.

#### **Software Development Costs**

Additions to software development costs, including enhancements to and development of TS2 processing systems, were \$29.5 million in 2002, \$19.5 million in 2001 and \$12.2 million in 2000. As a result of discontinuing and abandoning development on three software development projects, the Company expensed \$1.2 million and \$6.1 million in software development costs in 2001 and 2000, respectively, as employment and other operating expenses that were previously capitalized.

Due to the complexity of the differences between the English language and Asian languages, computer systems require two bytes to store an Asian character compared to one byte in the English language. With the opening of a branch office in Japan to facilitate its marketing of card processing services, TSYS began modifying its current TS2 system to be able to accommodate language and currency differences with Asia, commonly referred to as the "double byte project." During 2002, the Company capitalized \$5.5 million, bringing the capitalized total to \$9.5 million since the project began. The Company completed the core double-byte architecture during the second quarter of 2002. The Company is currently in the testing phase with the double-byte project.

The Company has finished developing a new commercial card system, which is built upon the architectural design of TS2. The new system provides enhanced reporting, multi-languages/currencies, and global commercial card processing for multinational corporations on a single platform. The Company capitalized approximately \$3.4 million for 2002, bringing the project total to \$36.9 million. The Company placed the new system in service in late 2002.

The Company is developing its Integrated Payments Platform supporting the online and offline debit and stored value markets, giving clients access to all national and regional debit networks, EBT programs, and ATM driving and switching services for online debit processing. The Company capitalized approximately \$4.6 million in 2002 on these projects, bringing the total capitalized costs to \$6.9 million since the project began. The Company expects to complete the system in phases. Phase I is the core platform and provides for processing of EBT and off-line debit and is complete. Phase II, which consists of on-line debit processing, is expected to be completed by the end of the second quarter of 2003.

The Company continues to develop TSYS ProphIT®, a Web-based process management system that provides direct access to account information and other system interfaces to help streamline an organization's business processes. TSYS ProphIT is being offered to TSYS' existing clients. Continued enhancements to TSYS ProphIT will add increased and enhanced functionality to the core platform. The Company capitalized approximately \$11.1 million in 2002 on TSYS ProphIT, bringing the total capitalized costs to \$15.3 million since the project began. The development of TSYS ProphIT will continue as the software is enhanced for additional features.

### **Contract Acquisition Costs**

TSYS makes cash payments for processing rights and incurs third-party development costs and other direct salary related costs in connection with converting new clients to the Company's processing systems. The Company's investments in contract acquisition costs were \$44.0 million in 2002, \$27.2 million in 2001 and \$41.7 million in 2000. These amounts include cash payments for processing rights, third-party development costs and other direct salary related costs incurred in connection with converting new clients to the Company's processing systems. Cash payments for processing rights were \$25.7 million, \$16.5 million and \$40.5 million in 2002, 2001 and 2000, respectively. Conversion cost additions were \$18.3 million, \$10.7 million and \$1.2 million in 2002, 2001 and 2000, respectively. Conversion costs were lower in 2000 as the result of less conversion activity due to clients concentrating on Year 2000 issues related to the century date changeover.

### **Cash Used in 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. 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 141. In accordance with the provisions of SFAS 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 \$17.9 million in 2002, compared to \$10.4 million and \$5.4 million in 2001 and 2000, respectively. As part of the restructured agreement for the Mexican joint venture, TSYS de México made a capital distribution to its owners. TSYS received \$3.3 million 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.

### **Cash Flows From Financing Activities**

The Company's main use of cash in financing activities is the payment of cash dividends to shareholders. Dividends on common stock of \$12.8 million were paid in 2002, compared to \$11.2 million and \$8.8 million in 2001 and 2000, respectively. On April 18, 2002, the Company announced a 16.7% increase in its quarterly dividend from \$0.0150 to \$0.0175 per share. The Company also 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.

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

### **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, including the Company's corporate campus. 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.

In 1997, the Company entered into an operating lease agreement relating to the corporate campus. The lease provides for a substantial residual value guarantee, up to \$81.4 million, and includes purchase options at the original cost of the property. Real estate taxes, insurance, maintenance and operating expenses applicable to the leased property are

obligations of the Company. The original campus lease expired November 2002. The Company had the option to either renew the lease subject to prevailing market rates or purchase the property at its original cost. The Company renewed the campus lease for a period of up to twelve months.

The terms of this lease financing arrangement require, among other things, that the Company maintain certain minimum financial ratios and provide certain information to the lessor. TSYS is also subject to interest rate risk associated with the lease on its campus facilities because of the short-term variable rate nature of the SPE's debt. The payments under the operating lease arrangement, which can be locked in for six month intervals, are tied to LIBOR plus a margin ranging from 95 basis points to 185 basis points. In the event that LIBOR rates increase, operating expenses could increase proportionately.

The Company is currently evaluating its financing alternatives for 2003 after the renewal period expires and expects to refinance before June 2003 in a manner in which operating expenses will increase.

If the Company elects to purchase the property from the SPE, such funds would be used to repay the SPE loan facility. The Company has several options available for financing the purchase of the property. Sources of financing may include short-term and/or long-term borrowings from financial institutions or the issuance of equity or debt securities.

The following table summarizes future contractual cash obligations, including lease payments, as of December 31, 2002, for the next five years and thereafter:

(dollars in millions)	Contractual Cash Obligations				
	Total	Payments Due By Period			
		1 Year or Less	2-3 Years	4-5 Years	After 5 Years
Operating leases	\$252.6	\$ 84.4	127.9	34.1	6.2
Accounts payable/ Capital lease obligations	0.9	0.3	0.6	-	-
Purchase obligations	88.4	32.5	38.1	17.8	-
Campus lease	2.3	2.3	-	-	-
Total contractual cash obligations	\$344.2	\$119.5	166.6	51.9	6.2

### Significant Noncash Transaction

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

### 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 explore potential hedging instruments to safeguard it from significant currency translation risks.

In 2002, the Company reclassified a portion of its investment in its UK operation through 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. As the Company translates the European operations' 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 company's financial statements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation. As a result of the favorable change in exchange rates, the Company recorded a foreign currency translation gain of \$3.0 million related to the Company's financing of its European operations during 2002. The balance outstanding on the financing at December 31, 2002 was approximately \$7.3 million.

As a result of providing financing through an intercompany loan to its UK investment, the Company has a greater exposure to currency risk. The Company is exploring 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

Management expects that TSYS will continue to be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future, as evidenced by TSYS' current ratio of 2.3:1. At December 31, 2002, TSYS had working capital of \$152.0 million, compared to \$99.6 million in 2001 and \$63.2 million in 2000.

Management believes that outside sources of capital will be available to finance expansion projects and possible acquisitions should the Company decide to pursue such financing. The form of any such financing will vary depending upon prevailing market and other conditions and may include short-term and/or long-term borrowings from financial institutions or the issuance of additional equity and/or debt securities such as industrial revenue bonds. However, there can be no assurance that funds will be available on terms acceptable to TSYS.

### Euro Conversion Readiness Disclosure

The Company converted the account portfolios of RBS and AIB in 2001. The United Kingdom is not a "participating

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

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this filing which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). These forward-looking statements include, among other things, statements regarding the expected impact on TSYS of recent accounting pronouncements; TSYS’ belief with respect to its growth opportunities in the consumer card, retail card and commercial card arenas; TSYS’ expected recoupment of building costs through future state tax credits; TSYS’ expectations with respect to its obligations to perform back-up servicing for Provident being “triggered”; TSYS’ expected growth in net income for 2003; TSYS’ expected time frames for completing its development projects; TSYS’ belief with respect to its ability to meet its contractual commitments and with respect to contingencies, and the assumptions underlying such statements, including, TSYS’ expected increase in net income for 2003; an increase in revenues (excluding reimbursable items) between 9-10%; an internal growth rate of accounts of existing clients of approximately 11%; and continued aggressive expense management. In addition, certain statements in future filings by TSYS with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of TSYS which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of TSYS or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believes,” “anticipates,” “expects,” “intends,” “targeted,” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

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) adverse

developments with respect to TSYS’ sub-prime clients; (ii) lower than anticipated internal growth rates for TSYS’ existing clients; (iii) TSYS’ inability to control expenses and increase market share; (iv) TSYS’ inability to successfully bring new products to market, including, but not limited to stored value and e-commerce products, loan processing products and other processing services; (v) the inability of TSYS to grow its business through acquisitions or successfully integrate acquisitions; (vi) TSYS’ inability to increase the revenues derived from international sources; (vii) adverse developments with respect to entering into contracts with new clients and retaining current clients; (viii) 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; (ix) TSYS’ inability to anticipate and respond to technological changes, particularly with respect to e-commerce; (x) adverse developments with respect to the successful conversion of clients; (xi) the absence of significant changes in foreign exchange spreads between the United States and the countries TSYS transacts business in, to include Mexico, the United Kingdom, Japan, Canada and the European Union; (xii) changes in consumer spending, borrowing and saving habits, including a shift from credit to debit cards; (xiii) changes in laws, regulations, credit card association rules or other industry standards affecting TSYS’ business which require significant product redevelopment efforts; (xiv) 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; (xv) the costs and effects of litigation; (xvi) adverse developments with respect to the credit card industry in general; (xvii) TSYS’ inability to successfully manage any impact from slowing economic conditions or consumer spending; (xviii) 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; (xix) successfully managing the potential both for patent protection and patent liability in the context of rapidly developing legal framework for expansive software patent protection; (xx) decreases in card activity; (xxi) hostilities in the Middle East or elsewhere; (xxii) Vital’s earnings are lower than anticipated; and (xxiii) overall market conditions.

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

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (includes \$85.7 million and \$48.6 million on deposit with a related party at 2002 and 2001, respectively) (Notes 2 and 10)	\$ 109,171,206	58,658,500
Restricted cash (includes \$4.0 million on deposit with a related party at 2002)	4,035,052	-
Accounts receivable, net of allowances for doubtful accounts and billing adjustments of \$8.0 million and \$5.4 million at 2002 and 2001, respectively	121,439,387	114,702,112
Deferred income tax assets (Note 7)	8,785,539	4,643,353
Prepaid expenses and other current assets (Note 10)	22,547,590	25,364,426
Total current assets	<u>265,978,774</u>	<u>203,368,391</u>
Property and equipment, net (Note 3)	120,835,260	123,668,192
Computer software, net (Note 4)	200,297,026	171,045,253
Contract acquisition costs (Note 10)	123,728,968	89,871,483
Other assets (Notes 5 and 10)	72,027,482	68,600,871
Total assets	<u>\$ 782,867,510</u>	<u>656,554,190</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,365,836	24,392,237
Accrued salaries and employee benefits	43,314,882	40,038,778
Current portion of long-term debt and obligations under capital leases	68,110	102,990
Other current liabilities (includes \$2.9 million and \$2.4 million payable to related parties at 2002 and 2001, respectively) (Note 10)	60,232,889	39,214,128
Total current liabilities	<u>113,981,717</u>	<u>103,748,133</u>
Long-term debt and obligations under capital leases, excluding current portion	67,354	135,463
Accounts payable	562,500	-
Deferred income tax liabilities (Note 7)	63,306,186	42,982,417
Total liabilities	<u>177,917,757</u>	<u>146,866,013</u>
Minority interest in consolidated subsidiary	2,743,863	2,358,578
Shareholders' equity (Note 6):		
Common stock - \$0.10 par value. Authorized 600,000,000 shares; 197,254,087 and 195,079,087 issued at 2002 and 2001, respectively; 197,049,470 and 194,778,670 outstanding at 2002 and 2001, respectively	19,725,409	19,507,909
Additional paid-in capital	35,143,089	27,714,987
Accumulated other comprehensive income (loss)	1,052,897	(3,455,338)
Treasury stock	(3,316,703)	(3,533,325)
Retained earnings	549,601,198	467,095,366
Total shareholders' equity	<u>602,205,890</u>	<u>507,329,599</u>
Total liabilities and shareholders' equity	<u>\$ 782,867,510</u>	<u>656,554,190</u>

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2002	2001	2000
<b>Revenues:</b>			
Electronic payment processing services (includes \$19.1 million, \$34.7 million and \$33.5 million from related parties for 2002, 2001 and 2000, respectively)	<b>\$ 617,876,400</b>	572,412,050	511,663,172
Other services (includes \$6.6 million, \$6.5 million and \$6.6 million from related parties for 2002, 2001 and 2000, respectively)	<b>106,086,405</b>	86,816,075	95,349,983
Revenues before reimbursable items	<b>723,962,805</b>	659,228,125	607,013,155
Reimbursable items (includes \$9.9 million, \$9.8 million and \$3.3 million from related parties for 2002, 2001 and 2000, respectively)	<b>231,170,026</b>	233,093,046	238,080,888
Total revenues (Notes 2 and 11)	<b>955,132,831</b>	892,321,171	845,094,043
<b>Expenses:</b>			
Salaries and other personnel expense	<b>300,239,783</b>	267,791,982	240,657,811
Net occupancy and equipment expense	<b>174,957,895</b>	171,679,560	163,953,365
Other operating expenses (includes \$9.5 million, \$7.9 million and \$11.2 million to related parties for 2002, 2001 and 2000, respectively)	<b>91,167,502</b>	81,960,950	87,445,632
(Gain) loss on disposal of equipment, net	<b>(74,848)</b>	92,530	1,421,899
Expenses before reimbursable items	<b>566,290,332</b>	521,525,022	493,478,707
Reimbursable items	<b>231,170,026</b>	233,093,046	238,080,888
Total operating expenses (Note 2)	<b>797,460,358</b>	754,618,068	731,559,595
Operating income	<b>157,672,473</b>	137,703,103	113,534,448
<b>Nonoperating income:</b>			
Interest income, net of interest expense (includes \$1.1 million, \$2.3 million and \$4.8 million from related parties for 2002, 2001 and 2000, respectively)	<b>2,600,989</b>	2,736,298	5,115,361
Gain on foreign currency translation, net	<b>3,012,842</b>	121,967	-
Other, net	<b>90</b>	68	61
Total nonoperating income	<b>5,613,921</b>	2,858,333	5,115,422
Income before income taxes, minority interest and equity in income of joint ventures	<b>163,286,394</b>	140,561,436	118,649,870
Income taxes	<b>57,907,900</b>	53,891,659	46,601,494
Minority interest in consolidated subsidiary's net income	<b>(154,627)</b>	(76,003)	(98,749)
Equity in income of joint ventures (Note 5)	<b>20,581,104</b>	17,824,455	15,586,310
Net income	<b>\$ 125,804,971</b>	104,418,229	87,535,937
Basic earnings per share	<b>\$ 0.64</b>	0.54	0.45
Diluted earnings per share	<b>\$ 0.64</b>	0.53	0.45
Weighted average common shares outstanding	<b>197,016,699</b>	194,772,766	194,784,981
Increase due to assumed issuance of shares related to stock options outstanding	<b>480,350</b>	831,696	480,371
Weighted average common and common equivalent shares outstanding	<b>197,497,049</b>	195,604,462	195,265,352

See accompanying Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 125,804,971	104,418,229	87,535,937
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in consolidated subsidiary's net income	154,627	76,003	98,749
Equity in income of joint ventures	(20,581,104)	(17,824,455)	(15,586,310)
Gain on foreign currency translation, net	(3,012,842)	(121,967)	-
Depreciation and amortization	74,503,784	58,648,737	52,150,111
Charges for bad debts and billing adjustments	3,262,830	569,434	1,825,486
Charges for transaction processing	6,532,268	1,438,241	5,726,889
Deferred income tax expense	13,620,858	15,732,245	3,919,089
(Gain) loss on disposal of equipment, net	(74,848)	92,530	1,421,899
(Increase) decrease in:			
Accounts receivable	(5,355,433)	(16,496,167)	(1,984,962)
Prepaid expenses and other assets	1,172,006	(3,362,381)	(13,528,616)
Increase (decrease) in:			
Accounts payable	(11,339,601)	(30,510,677)	38,946,829
Accrued salaries and employee benefits	3,276,104	(5,444,281)	8,840,280
Other current liabilities	9,650,177	(16,631,646)	(1,377,935)
Net cash provided by operating activities	<u>197,613,797</u>	<u>90,583,845</u>	<u>167,987,446</u>
Cash flows from investing activities:			
Purchase of property and equipment	(14,781,422)	(32,476,377)	(33,246,643)
Additions to computer software	(66,471,415)	(55,122,386)	(72,690,226)
Proceeds from disposal of equipment	161,973	1,084,219	80,483
Cash acquired in acquisition	2,858,384	-	3,460,470
Cash used in acquisition	(30,000,000)	-	-
Dividends received from joint ventures	17,855,119	10,410,281	5,369,192
Repayment of contract acquisition costs	-	-	10,000,000
Increase in contract acquisition costs	(44,043,871)	(27,194,200)	(41,713,092)
Net cash used in investing activities	<u>(134,421,232)</u>	<u>(103,298,463)</u>	<u>(128,739,816)</u>
Cash flows from financing activities:			
Repurchase of common stock	-	-	(2,077,301)
Proceeds from issuance of long-term debt	-	90,567	-
Principal payments on capital lease obligations	(102,989)	(110,480)	(260,089)
Dividends paid on common stock	(12,772,086)	(11,198,915)	(8,766,916)
Proceeds from exercise of stock options	204,550	264,365	24,088
Net cash used in financing activities	<u>(12,670,525)</u>	<u>(10,954,463)</u>	<u>(11,080,218)</u>
Effect of foreign exchange on cash and cash equivalents	(9,334)	(664,564)	(78,374)
Net increase (decrease) in cash and cash equivalents	\$ 50,512,706	(24,333,645)	28,089,038
Cash and cash equivalents at beginning of year	58,658,500	82,992,145	54,903,107
Cash and cash equivalents at end of year	\$ 109,171,206	58,658,500	82,992,145
Cash paid for interest	\$ 36,304	66,149	79,268
Cash paid for income taxes (net of refunds received)	\$ 34,017,594	50,732,072	43,114,744

Significant noncash transactions: In January 2002, the Company acquired TSYS Total Debt Management, Inc. through the issuance of 2,175,000 shares of common stock with a market value of \$43.5 million. Office equipment, in the amount of \$90,567, was acquired by ProCard, Inc. under a capital lease during the year ended December 31, 2001.

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 Share- holders' Equity
	Shares	Dollars					
Balance as of December 31, 1999	195,079,087	\$19,507,909	6,442,300	(1,453,708)	(1,529,176)	311,324,731	\$334,292,056
Comprehensive income:							
Net income	-	-	-	-	-	87,535,937	87,535,937
Other comprehensive loss, net of tax:							
Foreign currency translation	-	-	-	(159,973)	-	-	(159,973)
Other comprehensive loss	-	-	-	-	-	-	(159,973)
Comprehensive income	-	-	-	-	-	-	87,375,964
Acquisition of subsidiary	-	-	18,354,764	-	-	(15,245,607)	3,109,157
Common stock issued from treasury shares							
for exercise of stock options (Note 6)	-	-	15,300	-	11,794	-	27,094
Purchase of treasury shares	-	-	-	-	(2,077,301)	-	(2,077,301)
Cash dividends declared (\$.048 per share)	-	-	-	-	-	(9,251,569)	(9,251,569)
Tax benefits associated with stock options	-	-	540,500	-	-	-	540,500
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	-	-	-	-	-	-	102,576,572
Common stock issued from treasury shares							
for exercise of stock options (Note 6)	-	-	243,167	-	61,358	-	304,525
Cash dividends declared (\$.060 per share)	-	-	-	-	-	(11,686,355)	(11,686,355)
Tax 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	-	-	-	-	-	<b>125,804,971</b>	<b>125,804,971</b>
Other comprehensive income, net of tax:							
Foreign currency translation	-	-	-	<b>4,508,235</b>	-	-	<b>4,508,235</b>
Other comprehensive income	-	-	-	-	-	-	<b>4,508,235</b>
Comprehensive income	-	-	-	-	-	-	<b>130,313,206</b>
Common stock issued in an acquisition (Note 2)	<b>2,175,000</b>	<b>217,500</b>	<b>6,077,050</b>	-	-	-	<b>6,294,550</b>
Common stock issued from treasury shares							
for exercise of stock options (Note 6)	-	-	<b>122,670</b>	-	<b>216,622</b>	-	<b>339,292</b>
Cash issued in an acquisition (Notes 2 and 12)	-	-	-	-	-	<b>(30,000,000)</b>	<b>(30,000,000)</b>
Cash dividends declared (\$.068 per share)	-	-	-	-	-	<b>(13,299,139)</b>	<b>(13,299,139)</b>
Tax benefits associated with stock options	-	-	<b>1,228,382</b>	-	-	-	<b>1,228,382</b>
Balance as of December 31, 2002	<b>197,254,087</b>	<b>\$19,725,409</b>	<b>35,143,089</b>	<b>1,052,897</b>	<b>(3,316,703)</b>	<b>549,601,198</b>	<b>\$602,205,890</b>

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 81.0% 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 wholly owned subsidiaries, Columbus Depot Equipment Company, Columbus Productions, Inc., TSYS Canada, Inc. (TCI), TSYS Total Debt Management, Inc. (TDM) and ProCard, Inc. (ProCard), as well as its majority owned foreign subsidiary, GP Network Corporation (GP Net). Significant intercompany accounts and transactions have been eliminated in consolidation.

**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 \$8.0 million and \$5.4 million at December 31, 2002 and December 31, 2001, respectively. The allowance represents 6.2% and 4.5% of total accounts receivable at December 31, 2002 and December 31, 2001, 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, 2002 was 49 days.

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 clients of accounts receivable write-offs and prior history of allowances in proportion to the overall accounts 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 and decreases 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.

**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 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 over their estimated useful lives of five years. Software purchased under MIPS agreements are amortized over the term of the related agreement. The company evaluates impairment losses on long-lived assets used in operations in accordance with SFAS 144.

**SOFTWARE DEVELOPMENT COSTS:** The Company develops software that is used in providing electronic payment processing and other services to clients using Financial Accounting Standards Board (FASB) Statement No. 86 (SFAS 86), "Computer Software to be Sold, Leased or Otherwise Marketed." Under SFAS 86, 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 detail program design and has determined that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available to clients for general use. The Company evaluates the unamortized capitalized costs of software development as compared to the net realizable value of the software product which is determined by projected 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. Software development costs that are modifications to existing internal-use software that result in additional functionality 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 unless another systematic and rational basis is more representative of the software's use.

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

The amortization of contract acquisition costs associated with cash payments is recorded net 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 on the basis of whether these costs are fully recoverable from expected undiscounted net operating cash flows of the related contract. The determination of expected undiscounted net operating cash flows requires management to make estimates.

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

**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 141), "Business Combinations," and Statement No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. SFAS 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. The Company adopted the provisions of SFAS 141 on July 1, 2001.

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

At December 31, 2002, the Company had unamortized goodwill in the amount of \$3.6 million. As a result of implementing SFAS 142, the Company incurred no amortization expense of goodwill during the year ended December 31, 2002. Amortization expense related to goodwill was \$889,000 and \$528,000 for the years ended December 31, 2001 and 2000, respectively.

The Company's transitional and annual impairment analyses of its unamortized goodwill balance 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.

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

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

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

**MINORITY INTEREST:** Minority interest in earnings of consolidated 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.

**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 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 133), "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 (SFAS 138), "Accounting for Certain Derivative Instruments and Hedging Activities, an amendment of SFAS 133." SFAS 133 and SFAS 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. The Company adopted SFAS 133 and SFAS 138 on January 1, 2001. The Company did not have any outstanding derivative instruments or hedging transactions at December 31, 2002.

**REVENUE RECOGNITION:** The Company's electronic payment processing revenues are derived primarily 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 terms of processing contracts generally range from three to ten years in length.

The Company's other service revenues are derived from recovery collections work, bankruptcy process management, legal account management, skip tracing, commercial printing

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

**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 (FASB 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,		
	2002	2001	2000
Net income, as reported	\$ 125,804,971	104,418,229	87,535,937
Stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax effects	6,448,631	5,639,270	4,850,181
Net income, as adjusted	\$ 119,356,340	98,778,959	82,685,756
Earnings per share:			
Basic - as reported	\$ 0.64	0.54	0.45
Basic - as adjusted	\$ 0.61	0.51	0.42
Diluted - as reported	\$ 0.64	0.53	0.45
Diluted - as adjusted	\$ 0.60	0.51	0.42

The per share weighted average fair value of TSYS stock options granted during 2002 and 2000 was \$11.47 and \$9.21, 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 2002 and 2000, respectively: risk-free interest rates of 2.93% and 5.05%; expected volatility of 66.0% and 66.0%; expected life of 5.0 and 5.0 years; and dividend yield of 0.4% and 0.0%.

The per share weighted average fair value of Synovus stock options granted to TSYS employees during 2002, 2001 and 2000 was \$9.69, \$10.75 and \$6.03, 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 2002, 2001 and 2000,

respectively: risk-free interest rates of 5.4%, 5.4% and 6.9%; expected volatility of 30%, 29% and 30%; expected life of 9.0 years, 8.7 years and 6.8 years; and dividend yield of 2.4%, 1.8% and 2.3%.

**ADVERTISING:** Advertising costs, consisting mainly of advertising in trade publications, are expensed as incurred or at the first time the advertising takes place. Advertising expense for 2002, 2001 and 2000 was \$624,000, \$516,000 and \$619,000, 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. 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 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 prior periods have been reclassified to provide a consistent presentation.

In June 2001, the FASB issued Statement No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations." SFAS 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 also records a corresponding asset that is depreciated 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 is required to adopt SFAS 143 on January 1, 2003. The adoption of SFAS 143 is not expected to 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 145), "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 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 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 is applied in fiscal years beginning after May 15, 2002. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002. The adoption of SFAS 145 is not expected to 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 146), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue 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 146 is not expected to 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 are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has one lease guarantee which is described in Note 9 to these consolidated financial statements.

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 00-21 (EITF 00-21), "Accounting for Revenue Arrangements with Multiple Deliverables." EITF 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 00-21 addresses how to account for those arrangements. EITF 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. Management has not yet determined the effect of EITF 00-21 on TSYS' financial position, results of operations and cash flows.

In December 2002, the FASB issued Statement No. 148 (SFAS 148), "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS 148 amends FASB Statement No. 123 (SFAS 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 compen-

sation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For enterprises such as the Company with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

In 2002, the Company renewed its operating lease agreement with a special purpose entity (SPE) for the Company's corporate campus. If the synthetic lease is not restructured, Interpretation No. 46 will require TSYS to consolidate the SPE effective with the reporting period beginning July 1, 2003. The estimated fair value of the campus buildings and real property at January 1, 2003 was approximately \$93.0 million. Consolidation would also require TSYS to consolidate the SPE's results of operations, including depreciation and interest expense. The Company can withdraw from the lease agreement by providing a 60-day written notice. Management is currently evaluating its alternatives with respect to the campus financing and the impact Interpretation No. 46 will have on the Company's financial position, results of operations and cash flows if the Company is required to consolidate the operations of the SPE.

**RECLASSIFICATIONS:** Certain reclassifications have been made to the 2001 and 2000 financial statements to conform to the presentation adopted in 2002.

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

At December 31, 2002, CB&T owned 159,630,980 shares (81.0%) of TSYS common stock.

#### **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 141. In accordance with the provisions of SFAS 141, TSYS has restated its consolidated financial statements 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.

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 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 \$85.7 million and \$48.6 million at December 31, 2002 and 2001, respectively.

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

TSYS maintains an unsecured credit agreement with CB&T. The credit agreement has a maximum available principal balance of \$5.0 million, with interest at prime. TSYS did not use the credit facility during 2002, 2001 or 2000.

TSYS paid cash dividends to CB&T in the amount of approximately \$10.3 million, \$9.1 million and \$7.1 million in

2002, 2001 and 2000, respectively. TSYS received cash dividends from its equity method joint ventures of approximately \$17.9 million, \$7.1 million and \$5.4 million in 2002, 2001 and 2000, 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, 2002 and 2001, the Company had accounts receivable balances of \$1.6 million and \$1.3 million, respectively, associated with related parties. At December 31, 2002 and 2001, the Company had accounts payable balances of \$76,188 and \$68,963, respectively, associated with related parties. At December 31, 2002 and 2001, the Company had a current liability related to trustee fees payable to Synovus of \$87,461 and \$79,532, 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, 2002, 2001 and 2000:

	2002	2001	2000
Electronic payment processing services:			
Vital	<b>\$15,116,769</b>	15,069,633	14,133,348
CB&T and affiliates	<b>3,425,785</b>	3,274,862	3,333,229
Synovus and nonbanking affiliates	<b>488,148</b>	433,223	236,226
TSYS de México	<b>44,788</b>	15,961,010	15,808,559
Total electronic payment processing services	<b>\$19,075,490</b>	34,738,728	33,511,362
Other services:			
CB&T and affiliates	<b>\$5,575,853</b>	5,789,004	6,105,258
Synovus and nonbanking affiliates	<b>959,250</b>	641,701	487,774
Vital	<b>28,121</b>	22,447	12,323
Total other services	<b>\$6,563,224</b>	6,453,152	6,605,355
Reimbursable items:			
Vital	<b>\$8,464,318</b>	7,569,155	857,637
CB&T and affiliates	<b>1,173,370</b>	1,065,103	1,123,696
Synovus and nonbanking affiliates	<b>53,781</b>	243,582	536,025
TSYS de México	<b>237,519</b>	958,400	820,584
Total reimbursable items	<b>\$9,928,988</b>	9,836,240	3,337,942

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, 2002, 2001 and 2000 by expense category:

	2002	2001	2000
Salaries and other personnel expense:			
Trustee fees paid to Synovus	\$ 525,189	558,303	345,018
Total salaries and other personnel expense	\$ 525,189	558,303	345,018
Net occupancy and equipment expense:			
Rent paid to TSYS by CB&T	\$ (39,405)	(39,405)	(39,405)
Rent paid to Synovus by TSYS	377,285	211,878	20,807
Rent paid to TSYS by Synovus	(537,140)	(454,926)	(197,597)
Total net occupancy and equipment expense	\$ (199,260)	(282,453)	(216,195)
Other operating expenses:			
Management fees paid to Synovus	\$8,078,484	8,606,544	9,774,099
Management fees paid by Synovus	—	(1,497,000)	(504,967)
Processing support fees paid to TSYS de México	916,538	300,587	—
Service fees paid to Vital	325,000	—	—
Data processing service fees paid to TSYS by Synovus	(24,900)	(24,900)	(88,706)
Data processing service fees paid to Vital	123,381	327,240	273,291
Lockbox fees paid to Synovus	—	100,697	1,688,676
Banking service fees paid by TSYS to CB&T	43,479	46,345	68,004
Total other operating expenses	\$9,461,982	7,859,513	11,210,397

Prior to the acquisition of ProCard by TSYS, Synovus paid TSYS a management fee for assisting in managing ProCard. The management fee was \$252,500, \$303,000 and \$176,544 in 2002, 2001 and 2000, respectively.

NONOPERATING INCOME	2002	2001	2000
Interest income from CB&T	\$1,082,405	2,305,617	4,772,461

#### 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 2002, 2001 and 2000 as follows:

	2002	2001	2000
Number of shares under options	147,548	3,069,055	492,309
Weighted average exercise price	\$26.50	\$28.60	\$12.50

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:

	2002	2001
Land	\$ 6,825,754	6,748,039
Buildings and improvements	94,660,325	90,874,820
Computer and other equipment	85,241,159	73,390,761
Furniture and other equipment	60,994,892	63,119,583
Construction in progress	877,912	1,695,087
Total property and equipment	248,600,042	235,828,290
Less accumulated depreciation and amortization	127,764,782	112,160,098
Property and equipment, net	\$120,835,260	123,668,192

Depreciation and amortization expense related to property and equipment was \$21,180,123, \$20,775,020 and \$17,102,715 for the years ended December 31, 2002, 2001 and 2000, respectively.

#### NOTE 4 Computer Software

Computer software at December 31 is summarized as follows:

	2002	2001
Purchased computer software	\$ 236,195,574	199,021,424
Software development costs:		
TS2	33,048,872	33,048,872
TS2 Total Commerce	36,891,915	33,461,076
TSYS ProphIT	15,296,387	4,175,144
Double byte	9,527,262	3,982,527
Integrated payments	6,927,012	2,306,505
Other capitalized software development costs	12,024,249	7,290,525
Total software development costs	113,715,697	84,264,649
Total computer software	349,911,271	283,286,073
Less accumulated amortization	149,614,245	112,240,820
Computer software, net	\$ 200,297,026	171,045,253

Amortization expense related to purchased computer software costs was \$30,273,104, \$24,803,900 and \$20,604,861 for the years ended December 31, 2002, 2001 and 2000, respectively. Amortization of software development costs was \$6,803,853, \$4,817,586 and \$5,101,047 for the years ended December 31, 2002, 2001 and 2000, 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.

During 2000, the Company ceased development of two software development projects. The projects were reevaluated to

determine their utilization in a new platform design. Based on its review, the Company expensed \$6.1 million of costs in salaries and other personnel and other operating expenses that were originally capitalized on those projects.

The weighted average estimated useful lives of purchased computer software was approximately 5.00 years at December 31, 2002 with remaining useful lives of 2.89 years for future periods.

The weighted average estimated useful lives of software development cost was approximately 6.49 years at December 31, 2002 with remaining useful lives of 5.95 years for future periods.

Estimated future amortization expense on purchased computer software and software development costs as of December 31, 2002 for the next five years is:

	Purchased Computer Software	Software Development Costs
2003	\$ 32,107,958	12,528,166
2004	26,000,905	11,281,076
2005	21,220,221	8,320,948
2006	15,956,723	8,307,953
2007	17,708,664	5,387,724

#### 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, 2002 and 2001, and for the years ended December 31, 2002, 2001 and 2000, is summarized as follows:

	2002	2001	2000
<b>Consolidated Balance Sheet Data:</b>			
(in thousands)			
Current assets	\$ 85,392	85,153	
Total assets	129,171	130,285	
Current liabilities	26,946	34,029	
Total liabilities	28,129	36,048	
Members' capital	101,042	94,237	
<hr/>			
<b>Consolidated Statement of Income Data:</b>			
(in thousands)			
Revenues	\$ 248,313	223,761	181,019
Operating income	39,193	31,279	22,895
Net income*	39,805	32,302	25,655

\*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:

(millions of dollars)	2002	2001	2000
Vital	\$ 19.8	16.0	13.2
Other	0.8	1.8	2.4
Total equity in income of joint ventures	\$ 20.6	17.8	15.6

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

In 2000, the Vital Board of Directors approved a plan to allow its owners to set aside up to 2,000,000 units held by the owners to make awards to key management of Visa and TSYS. In 2000, TSYS awarded six of its key executives an aggregate of 800,000 Vital restricted units for their role in the development, growth and success of Vital. These units vest at the end of three years under a cliff vesting method. During the three years, there will be no voting rights or dividend distributions related to these restricted units. The vesting of these units also accelerates upon a change of control or an initial public offering of Vital. The Company recognized \$1,404,000, \$467,976 and \$1,128,030 as compensation expense in 2002, 2001 and 2000, respectively, related to the Vital restricted unit awards.

#### NOTE 6 Shareholders' Equity

**TREASURY STOCK:** In October 1999, the Company announced a plan to purchase up to 1.5 million shares of its common stock from time to time and at various prices over the ensuing two years. During the year ended December 31, 2000, the Company purchased 130,400 shares for \$2.1 million in cash. The plan expired in October 2001.

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

	Number of Treasury Shares	Treasury Shares Cost
<b>December 31, 2002</b>	<b>204,617</b>	<b>\$ 3,316,703</b>
December 31, 2001	300,417	3,533,325
December 31, 2000	340,217	3,594,683
December 31, 1999	217,467	1,529,176

During 2002, 2001 and 2000, employees of the Company exercised options for 95,800, 39,800 and 7,650 shares of TSYS common stock, respectively, that were issued from treasury 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, 2002, there were options outstanding under the TSYS 2002 Plan to purchase 404,566 shares of the Company's common stock, of which none were exercisable. There were 8,950,733 shares available for grant at December 31, 2002 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, 2002, there were options outstanding under the LTI Plan to purchase 1,471,700 shares of the Company's common stock, all of which were exercisable. There were no shares available for grant at December 31, 2002 under the LTI Plan.

#### OTHER EQUITY ISSUANCES

TSYS has granted options to purchase 77,050 shares of the Company's common stock to attract two key individuals to the Company. At December 31, 2002, options to purchase 77,050 shares with a weighted average price of \$16.93 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	1,915,816	\$ 14.67	8,950,733
Equity compensation plans not approved by security holders	37,500	18.50	-
Total	1,953,316	\$ 14.74	8,950,733

These plans consist of an option 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, 2002, 2001 and 2000, and changes during the years ended on those dates is presented below:

	2002		2001		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options:						
Outstanding at beginning of year	1,644,550	\$ 12.69	1,684,350	\$ 12.55	1,637,000	\$ 12.41
Granted	406,066	20.03	-	-	55,000	15.44
Exercised	(95,800)	2.00	(39,800)	6.64	(7,650)	2.00
Forfeited/canceled	(1,500)	19.41	-	-	-	-
Outstanding at end of year	1,953,316	\$ 14.74	1,644,550	\$ 12.69	1,684,350	\$ 12.55
Options exercisable at year-end	1,548,750	\$ 13.36	721,300	\$ 11.96	614,100	\$ 11.33
Weighted average fair value of options granted during the year		\$ 11.47		na		\$ 9.21

na= not applicable

The following table summarizes information about TSYS stock options outstanding and exercisable at December 31,2002:

	Outstanding			Exercisable	
	Number Outstanding at December 31, 2002	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2002	Weighted Average Exercise Price
	1,470,000	4.84	\$ 13.17	1,470,000	\$ 13.17
	41,250	7.02	15.44	41,250	15.44
	37,500	6.03	18.50	37,500	18.50
	404,566	9.30	20.03	-	-
	1,953,316	5.84	\$ 14.74	1,548,750	\$ 13.36

**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, 2002, 2001 and 2000, and changes during the years ended on those dates is presented below:

	2002		2001		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options:						
Outstanding at beginning of year	6,213,557	\$ 22.95	3,590,087	\$ 17.01	3,460,647	\$ 17.20
Granted	147,548	26.50	3,069,055	28.60	492,309	12.50
Exercised	(166,733)	14.46	(398,050)	13.21	(244,206)	9.29
Forfeited/canceled	(75,199)	16.52	(47,535)	20.66	(118,663)	19.71
Outstanding at end of year	6,119,173	\$ 23.35	6,213,557	\$ 22.95	3,590,087	\$ 17.01
Options exercisable at year-end	2,728,579	\$ 17.65	2,128,665	\$ 16.32	1,628,612	\$ 12.50
Weighted average fair value of options granted during the year		\$ 9.69		\$ 10.75		\$ 6.03

The following table summarizes information about Synovus' stock options held by TSYS employees outstanding and exercisable at December 31, 2002:

Range of Exercise Prices	Outstanding			Exercisable	
	Number Outstanding at December 31, 2002	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2002	Weighted Average Exercise Price
\$6.74	170,054	1.79	\$ 6.74	170,054	\$ 6.74
\$8.72-\$18.37	842,478	3.18	13.54	842,478	13.54
\$19.19-\$22.88	1,572,690	4.64	21.22	1,572,690	21.22
\$1.72-\$18.06	331,285	5.81	17.01	143,357	15.63
\$26.44-\$28.99	3,202,666	9.39	28.52	-	-
	6,119,173	6.91	\$ 23.35	2,728,579	\$ 17.65

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

As a result of the integration of DotsConnect's business back into TSYS on January 1, 2002, the 2000 plan was cancelled. TSYS paid approximately \$58,600 in cash to cancel a portion of the outstanding DotsConnect options, while the rest were cancelled without consideration. This amount is reflected as compensation expense in the Company's 2002 consolidated statement of income.

**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, 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)
	Balance at December 31, 1999	Pretax amount	Tax effect	Balance at December 31, 2000
Cumulative currency translation adjustments	\$ (1,453,708)	(248,739)	88,766	\$ (1,613,681)

**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,	2002	2001	2000
Current income tax expense (benefit):			
Federal	\$ 50,179,313	41,036,807	42,273,813
State	(5,892,271)	(2,888,195)	408,592
Total current income tax expense	<u>44,287,042</u>	<u>38,148,612</u>	<u>42,682,405</u>
Deferred income tax expense (benefit):			
Federal	16,733,592	14,868,433	3,701,362
State	(3,112,734)	874,614	217,727
Total deferred income tax expense :	<u>13,620,858</u>	<u>15,743,047</u>	<u>3,919,089</u>
Total income tax expense	\$ <u>57,907,900</u>	<u>53,891,659</u>	<u>46,601,494</u>

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,	2002	2001	2000
Computed "expected" income tax expense	\$ 57,150,238	49,196,503	41,527,454
Increase (decrease) in income tax expense resulting from:			
Tax on equity in income of joint ventures	7,149,267	6,211,958	5,420,646
State income tax expense (benefit), net of federal income tax effect	(5,853,253)	(1,308,828)	407,107
Decrease in valuation allowance	(1,050,000)	-	-
Other, net	511,648	(207,974)	(753,713)
Total income tax expense	\$ <u>57,907,900</u>	<u>53,891,659</u>	<u>46,601,494</u>

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

At December 31,	2002	2001
Deferred income tax assets:		
Allowances for processing transactions	\$ 5,234,763	3,945,247
Primarily accruals not deductible until paid	(1,352,266)	(1,157,091)
State tax credits	4,903,042	1,855,197
Net current deferred income tax assets	\$ <u>8,785,539</u>	<u>4,643,353</u>
Deferred income tax liabilities:		
Computer software development costs	\$ (38,532,333)	(24,725,512)
Excess tax over financial statement depreciation	(22,442,201)	(16,220,050)
Foreign Currency Translation	(550,037)	2,010,687
Other, net	(1,431,615)	(2,647,542)
Valuation allowance	(350,000)	(1,400,000)
Gross noncurrent deferred income tax liabilities	<u>(63,306,186)</u>	<u>(42,982,417)</u>
Net deferred income tax liabilities	\$ <u>(54,520,647)</u>	<u>(38,339,064)</u>

As of December 31, 2002 and 2001, TSYS had state income tax credit carryforwards of \$4,903,042 and \$1,855,197, 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, 2002 and 2001, 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 \$350,000 and \$1,400,000 at December 31, 2002 and 2001, respectively. The decrease in the valuation allowance for deferred income tax assets was \$1,050,000 for the year ended December 31, 2002.

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 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:

**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:

2002	\$11,320,087
2001	11,379,139
2000	10,087,193

**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 compen-

sation, as defined. The Company's contributions to the plan charged to expense for the years ended December 31 are as follows:

<b>2002</b>	<b>\$ 13,154,994</b>
2001	11,269,073
2000	9,511,049

**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's contributions to the plan charged to expense for the years ended December 31 are as follows:

<b>2002</b>	<b>\$ 0</b>
2001	0
2000	6,774,850

**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:

<b>2002</b>	<b>\$ 3,533,666</b>
2001	3,179,490
2000	2,764,979

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

#### NOTE 9 Commitments and Contingencies

**LEASE COMMITMENTS:** TSYS is obligated under noncancelable operating leases for computer equipment and facilities. Management expects that, as these leases expire, they will be renewed or replaced by similar leases.

In 1997, TSYS entered into an operating lease agreement for the Company's corporate campus. The original campus lease expired November 2002 and the Company renewed the lease for a period up to twelve months.

Under the agreement, which is guaranteed by Synovus the lessor paid for the construction and development costs and has leased the facilities to the Company. The lease provides for substantial residual value guarantees and includes purchase options at the original cost of the property. The amount of the residual value guarantee relative to the assets under this lease is projected to be \$81.4 million. The terms of this lease financing arrangement require, among other things, that the Company

maintain certain minimum financial ratios and provide certain information to the lessor. As of December 31, 2002, TSYS was in compliance with all the covenants under the lease arrangement.

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, 2002, are as follows:

(dollars in millions)	
2003	\$ 70.3
2004	68.4
2005	59.6
2006	29.4
2007	4.7
Thereafter	6.2
Total future minimum lease payments	<u>\$ 238.6</u>

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 2002, 2001 and 2000 was \$81.8 million, \$89.2 million and \$91.6 million, respectively.

**GUARANTEES:** 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, 2002 is \$6.7 million. If Vital fails to perform its obligations with regards to the lease, TSYS and Visa will be required to perform in the same manner and to the same extent as is required by Vital.

**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 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.

#### NOTE 10 Supplemental Balance Sheet Information

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

	2002	2001
Cash and cash equivalents in domestic accounts	\$ 84,462,671	48,695,695
Cash and cash equivalents in accounts outside the United States	24,708,535	9,962,805
Total cash and cash equivalents	\$ 109,171,206	58,658,500

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

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

	2002	2001
Prepaid expenses	\$ 8,228,801	10,725,536
Other	14,318,789	14,638,890
Total	\$ 22,547,590	25,364,426

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

	2002	2001
Payments for processing rights, net	\$ 89,740,749	71,395,849
Conversion costs, net	33,988,219	18,475,634
Total	\$ 123,728,968	89,871,483

Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was \$10.6 million, \$6.2 million and \$4.0 million for 2002, 2001 and 2000, respectively.

Amortization expense related to conversion costs was \$3.5 million, \$385,000 and \$3.2 million for 2002, 2001 and 2000, respectively. The Company had certain contractual obligations related to the timing and accuracy of conversions. The Company estimated the potential liability and recorded it as a contra asset against prepaid conversion costs. During 2001, the obligations were either met through completed conversions, or expired, resulting in the Company adjusting a \$2.0 million accrual. As a result, amortization expense in 2001 was significantly lower than 2000.

The weighted average estimated lives of payments for processing rights was approximately 9.57 years for the year ended December 31, 2002 with remaining useful lives of 7.79 years for future periods.

The weighted average estimated lives of conversion costs was approximately 5.84 years for the year ended December 31, 2002 with remaining useful lives of 4.81 years for future periods.

Estimated future amortization expense on payments for processing rights and conversion costs as of December 31, 2002 for the next five years is:

	Payments for Processing Rights	Conversion Costs
2003	\$ 12,599,056	6,700,426
2004	12,720,282	6,770,184
2005	12,513,526	6,713,585
2006	11,762,390	5,470,229
2007	9,905,923	2,335,498

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

	2002	2001
Equity investments, net	\$ 54,181,246	51,566,564
Goodwill, net	3,619,178	3,608,232
Other	14,227,056	13,426,075
Total	\$ 72,027,482	68,600,871

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

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

	2002	2001
Client postage deposits	\$ 16,054,531	19,065,119
Deferred revenues	8,554,131	726,614
Transaction processing provisions	5,347,010	7,291,441
Dividends payable	3,448,709	2,921,657
Other	26,828,508	9,209,297
Total	\$ 60,232,889	39,214,128

#### 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 131), "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected financial information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic area data and major customers.

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 chief operating decision makers (CODMs) use to make resource allocations and strategic decisions. The CODMs at TSYS consist of the chief executive officer, the president and the four executive vice presidents.

Through online accounting and electronic payment processing systems, 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 processing services include electronic payment processing services and other services provided from the Company's facilities in the United States. The domestic-based processing services segment includes the financial results of TSYS, excluding its foreign branch offices, and the following subsidiaries: CDEC, CPI, TDM and ProCard. The Company's share of the equity in income of Vital is included in the domestic-based processing segment because Vital's operations and client base are located in the United States.

International-based processing services include electronic payment processing services and other services provided outside the United States. International-based processing services include the financial results of TCI, 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 processing segment because TSYS de México's operations and client base are located outside the United States.

	Domestic-based processing services	International-based processing services	Consolidated
<b>2002</b>			
<b>Total revenue</b>	<b>\$ 890,830,320</b>	<b>66,336,459</b>	<b>\$ 957,166,779</b>
<b>Intersegment revenue</b>	<b>(646,221)</b>	<b>(1,387,727)</b>	<b>(2,033,948)</b>
<b>Revenue from external customers</b>	<b>\$ 890,184,099</b>	<b>64,948,732</b>	<b>\$ 955,132,831</b>
<b>Depreciation and amortization</b>	<b>\$ 65,078,535</b>	<b>9,425,249</b>	<b>\$ 74,503,784</b>
<b>Segment operating income (loss)</b>	<b>\$ 158,431,170</b>	<b>(758,697)</b>	<b>\$ 157,672,473</b>
<b>Income taxes</b>	<b>\$ 56,923,231</b>	<b>984,669</b>	<b>\$ 57,907,900</b>
<b>Equity in income of joint ventures</b>	<b>\$ 19,752,960</b>	<b>828,144</b>	<b>\$ 20,581,104</b>
<b>Net income</b>	<b>\$ 124,689,358</b>	<b>1,115,613</b>	<b>\$ 125,804,971</b>
<b>Identifiable assets</b>	<b>\$ 777,509,354</b>	<b>92,145,647</b>	<b>\$ 869,655,001</b>
<b>Intersegment eliminations</b>	<b>(86,787,491)</b>	<b>-</b>	<b>(86,787,491)</b>
<b>Total assets</b>	<b>\$ 690,721,863</b>	<b>92,145,647</b>	<b>\$ 782,867,510</b>
<b>2001</b>			
Total revenue	\$ 861,112,660	34,286,109	\$ 895,398,769
Intersegment revenue	(2,005,893)	(1,071,705)	(3,077,598)
Revenue from external customers	\$ 859,106,767	33,214,404	\$ 892,321,171
Depreciation and amortization	\$ 52,303,628	6,345,109	\$ 58,648,737
Segment operating income (loss)	\$ 157,638,286	(19,935,183)	\$ 137,703,103
Income taxes	\$ 60,463,881	(6,572,222)	\$ 53,891,659
Equity in income of joint ventures	\$ 15,985,120	1,839,335	\$ 17,824,455
Net income (loss)	\$ 115,767,354	(11,349,125)	\$ 104,418,229
Identifiable assets	\$ 656,382,089	91,657,540	\$ 748,039,629
Intersegment eliminations	(91,416,218)	(69,221)	(91,485,439)
Total assets	\$ 564,965,871	91,588,319	\$ 656,554,190
<b>2000</b>			
Total revenue	\$ 840,155,387	6,046,556	\$ 846,201,943
Intersegment revenue	(2,900)	(1,105,000)	(1,107,900)
Revenue from external customers	\$ 840,152,487	4,941,556	\$ 845,094,043
Depreciation and amortization	\$ 51,870,574	279,537	\$ 52,150,111
Segment operating income (loss)	\$ 115,028,370	(1,493,922)	\$ 113,534,448
Income taxes	\$ 46,664,316	(62,822)	\$ 46,601,494
Equity in income of joint ventures	\$ 13,107,112	2,479,198	\$ 15,586,310
Net income	\$ 86,584,480	951,457	\$ 87,535,937
Identifiable assets	\$ 600,202,167	9,193,198	\$ 609,395,365
Intersegment eliminations	(5,292,939)	(95,297)	(5,388,236)
Total assets	\$ 594,909,228	9,097,901	\$ 604,007,129

Revenues for domestic-based processing 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 processing 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.

(dollars in millions)	2002	%	2001	%	2000	%
United States	\$ 816.0	85.4	798.7	89.5	783.0	92.6
Europe	54.6	5.7	23.9	2.7	-	-
Canada*	42.8	4.5	41.1	4.6	38.5	4.6
Mexico	29.2	3.1	16.9	1.9	16.6	2.0
Japan	10.3	1.1	9.6	1.1	4.9	0.6
Other	2.2	0.2	2.1	0.2	2.1	0.2
Totals	\$ 955.1	100.0	892.3	100.0	845.1	100.0

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

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

(dollars in millions)	December 31,	
	2002	2001
United States	\$ 97.0	101.6
Europe	22.1	20.9
Japan	1.6	1.1
Canada	0.1	0.1
Totals	\$ 120.8	123.7

**MAJOR CUSTOMERS:**

Revenue (dollars in millions)	Years Ended December 31,					
	2002		2001		2000	
	Dollars	% of Total Revenues	Dollars	% of Total Revenues	Dollars	% of Total Revenues
One	\$ 177.8	18.6%	\$ 162.8	18.3%	\$ 150.6	17.8%
Two	126.5	13.3	165.0	18.5	132.8	15.7
Totals	\$ 304.3	31.9%	\$ 327.8	36.8%	\$ 283.4	33.5%

For the years ended December 31, 2002, 2001 and 2000, the Company had two major customers which accounted for approximately 31.9%, 36.8% and 33.5%, respectively, of total revenues. Revenues from major customers for the years reported are attributable to the domestic-based processing services segment.

**NOTE 12 Acquisitions**

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 processing 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 141. In accordance with the provisions of SFAS 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.

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 processing 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 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, 2001 and 2000, respectively, as though the acquisition of TDM had occurred at the beginning of 2000. This pro forma information is based on the historical financial statements of TDM. Pro forma results do not include any actual or anticipated cost savings or expenses of the planned integration of TSYS 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,	
	2001	2000
Revenues	\$ 909,620,447	858,263,175
Net income	106,006,931	88,516,498
Basic earnings per share	0.54	0.45
Diluted earnings per share	0.54	0.45

During August 2000, TSYS announced that it had purchased an equity position in an established electronic payments company in Japan. The Company paid \$4.7 million in cash to acquire 51% of GP Net. The Company allocated \$2.0 million of the total consideration to goodwill with the remaining amounts allocated to the net assets acquired. In November 2000, the Company acquired an additional 2% ownership in GP Net for \$95,310 in cash. TSYS' ownership of GP Net was decreased to 51.46% in August 2001 when another party purchased an ownership interest in GP Net. GP Net's financial statements are included in the TSYS consolidated financial statements because TSYS acquired the controlling interest. TSYS began consolidating GP Net's financial results effective September 1, 2000.

**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, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

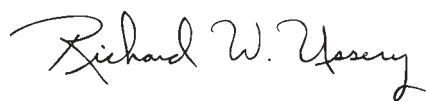
January 13, 2003

## REPORT OF FINANCIAL RESPONSIBILITY

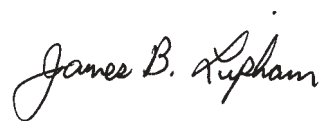
The management of Total System Services, Inc. is responsible for the integrity and objectivity of the consolidated financial statements and other financial information presented in this report. These statements have been prepared in accordance with generally accepted accounting principles and necessarily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

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

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



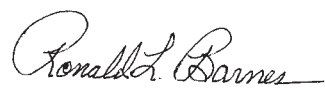
Richard W. Ussery  
Chairman of the Board & Chief Executive Officer



James B. Lipham  
Executive Vice President & Chief Financial Officer



Dorenda K. Weaver  
Group Executive & Controller



Ronald L. Barnes  
Group Executive & General Auditor

## QUARTERLY FINANCIAL DATA, STOCK PRICE, DIVIDEND INFORMATION

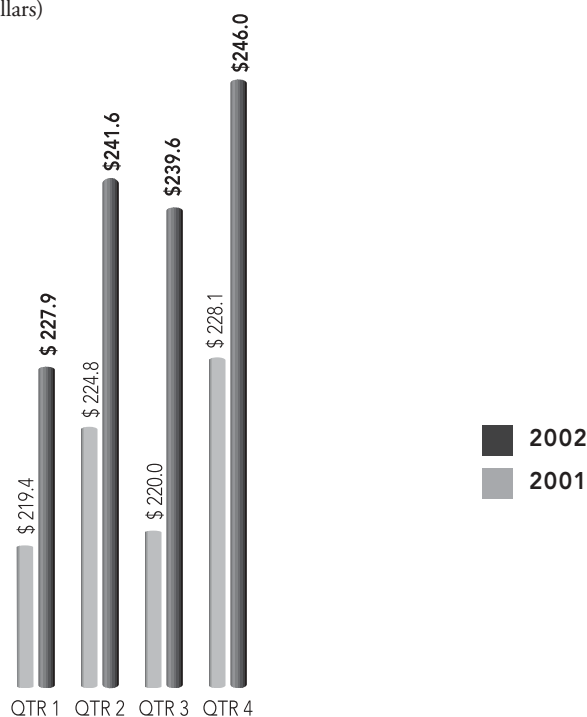
TSYS' common stock trades on the New York Stock Exchange (NYSE) under the symbol "TSS." Price and volume information appears under the abbreviation "TotSysSvc" in NYSE daily stock quotation listings. As of February 17, 2003, there were 12,045 holders of record of TSYS common stock, some of whom are holders in nominee name for the benefit of different shareholders.

The fourth quarter dividend of \$.0175 per share was declared on November 20, 2002, and was paid January 2, 2003, to shareholders of record on December 20, 2002. Total dividends declared in 2002 and in 2001 amounted to \$13.3 million and \$11.7 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, 2002 and 2001.*

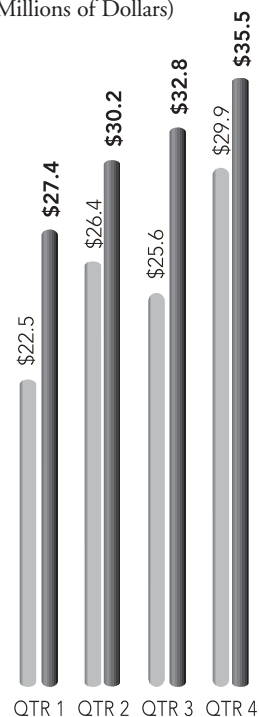
### REVENUES

(Millions of Dollars)



### NET INCOME

(Millions of Dollars)



		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands except per share data)					
<b>2002</b>	<b>Revenues</b>	\$ 227,923	241,606	239,607	245,997
	<b>Operating income</b>	35,972	38,274	40,664	42,762
	<b>Net income</b>	27,382	30,151	32,816	35,456
	<b>Basic earnings per share</b>	0.14	0.15	0.17	0.18
	<b>Diluted earnings per share</b>	0.14	0.15	0.17	0.18
	<b>Cash dividends declared per share</b>	0.015	0.0175	0.0175	0.0175
	<b>Stock prices:</b>				
	<b>High</b>	29.44	25.85	19.35	14.29
	<b>Low</b>	20.68	18.31	12.73	11.01
<b>2001</b>	<b>Revenues</b>	\$ 219,397	224,815	220,042	228,067
	<b>Operating income</b>	30,068	35,577	33,791	38,267
	<b>Net income</b>	22,539	26,387	25,632	29,860
	<b>Basic earnings per share</b>	0.12	0.14	0.13	0.15
	<b>Diluted earnings per share</b>	0.12	0.13	0.13	0.15
	<b>Cash dividends declared per share</b>	0.015	0.015	0.015	0.015
	<b>Stock prices:</b>				
	<b>High</b>	24.63	32.00	35.84	26.45
	<b>Low</b>	21.50	24.10	20.00	18.91