TOTAL SYSTEM SERVICES INC
Form 10-Q
August 07, 2009

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

(Mark One)

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

For the quarterly period ended: June 30, 2009

OR

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

For the transition period from To

Commission file number 1-10254

Total System Services, Inc.
www.tsys.com
(Exact name of registrant as specified in its charter)

Georgia	**58-1493818**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One TSYS Way, Post Office Box 1755, Columbus, Georgia 31902
(Address of principal executive offices) (Zip Code)

(706) 649-2310
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AS OF: August 7, 2009
Common Stock, $0.10 par value	**197,146,311 shares**

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

(in thousands, except per share data)		**June 30, 2009**	December 31, 2008
Assets			
Current assets:			
Cash and cash equivalents	$	**344,443**	211,365
Restricted cash		**26,418**	31,128
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of $7.0 million and $8.0 million at 2009 and 2008, respectively		**227,583**	246,767
Deferred income tax assets		**16,949**	29,615
Prepaid expenses and other current assets		**80,096**	88,612
Current assets of discontinued operations		**19,931**	24,570
Total current assets		**715,420**	632,057
Property and equipment, net of accumulated depreciation and amortization of $300.3 million and $285.9 million at 2009 and 2008, respectively		**280,336**	279,653
Computer software, net of accumulated amortization of $454.1 million and $423.7 million at 2009 and 2008, respectively		**200,785**	202,038
Contract acquisition costs, net		**132,567**	131,568
Goodwill		**168,104**	165,995
Equity investments		**71,706**	74,012
Other intangible assets, net of accumulated amortization of $14.9 million and $15.6 million at 2009 and 2008, respectively		**15,739**	17,452
Other assets		**43,417**	40,768
Long-term assets of discontinued operations		**6,705**	7,245
Total assets	$	**1,634,779**	1,550,788
Liabilities			
Current liabilities:			
Current portion of long-term debt	$	**6,851**	8,575
Current portion of obligations under capital leases		**5,814**	6,344
Accrued salaries and employee benefits		**25,439**	46,696
Accounts payable		**29,627**	32,440
Other current liabilities		**152,052**	131,515
Current liabilities of discontinued operations		**13,222**	10,998
Total current liabilities		**233,005**	236,568
Long-term debt, excluding current portion		**197,495**	196,295
Deferred income tax liabilities		**51,456**	60,578
Obligations under capital leases, excluding current portion		**14,293**	13,576
Other long-term liabilities		**43,654**	40,709
Long-term liabilities of discontinued operations		**416**	2,212

Total liabilities	**540,319**	549,938
Equity		
Shareholders equity:		
Common stock $0.10 par value. Authorized 600,000 shares; 200,828 and 200,356 issued at 2009 and 2008, respectively; 197,151 and 196,704 outstanding at 2009 and 2008, respectively	**20,083**	20,036
Additional paid-in capital	**133,082**	126,889
Accumulated other comprehensive income (loss), net	**8,062**	(6,627)
Treasury stock, at cost (shares of 3,677 and 3,652 at 2009 and 2008, respectively)	**(69,950)**	(69,641)
Retained earnings	**992,638**	920,292
Total shareholders equity	**1,083,915**	990,949
Noncontrolling interests in consolidated subsidiaries	**10,545**	9,901
Total equity	**1,094,460**	1,000,850
Total liabilities and equity	**$ 1,634,779**	1,550,788

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended June 30,	
(in thousands, except per share data)	**2009**	2008
Revenues:		
Electronic payment processing services	$ **235,936**	247,455
Merchant acquiring services	**69,694**	65,607
Other services	**45,091**	49,993
Revenues before reimbursable items	**350,721**	363,055
Reimbursable items	**61,272**	66,575
Total revenues	**411,993**	429,630
Expenses:		
Salaries and other personnel expenses	**148,509**	144,304
Net technology and facilities expenses	**72,935**	74,225
Spin-related expenses	**¾**	1,255
Other operating expenses	**46,498**	46,423
Expenses before reimbursable items	**267,942**	266,207
Reimbursable items	**61,272**	66,575
Total expenses	**329,214**	332,782
Operating income	**82,779**	96,848
Nonoperating expenses	**(2,278)**	(429)
Income from continuing operations before income taxes and equity in income of equity investments	**80,501**	96,419
Income taxes	**29,229**	33,981
Income from continuing operations before equity in income of equity investments	**51,272**	62,438
Equity in income of equity investments, net of tax	**1,626**	1,109
Income from continuing operations, net of tax	**52,898**	63,547
Income from discontinued operations, net of tax	**1,120**	234
Net income	**54,018**	63,781
Net income attributable to noncontrolling interests	**(571)**	(697)
Net income attributable to TSYS	$ **53,447**	63,084

Basic earnings per share (EPS) (Note 17)*:

Income from continuing operations	$	**0.27**	0.32
Income from discontinued operations		**0.01**	0.00
Net income	$	**0.27**	0.32
Diluted EPS*:			
Income from continuing operations	$	**0.27**	0.32
Income from discontinued operations		**0.01**	0.00
Net income	$	**0.27**	0.32
Amounts attributable to TSYS common shareholders:			
Income from continuing operations	$	**52,327**	62,850
Income from discontinued operations		**1,120**	234
Net income	$	**53,447**	63,084

* Note: Basic and diluted EPS amounts for continuing operations and net income do not total due to rounding.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Six months ended June 30,	
(in thousands, except per share data)	**2009**	2008
Revenues:		
Electronic payment processing services	**$ 468,056**	493,124
Merchant acquiring services	**135,171**	127,321
Other services	**92,941**	95,740
Revenues before reimbursable items	**696,168**	716,185
Reimbursable items	**124,759**	133,270
Total revenues	**820,927**	849,455
Expenses:		
Salaries and other personnel expenses	**292,851**	289,529
Net technology and facilities expenses	**146,921**	146,481
Spin-related expenses		8,150
Other operating expenses	**95,502**	89,082
Expenses before reimbursable items	**535,274**	533,242
Reimbursable items	**124,759**	133,270
Total expenses	**660,033**	666,512
Operating income	**160,894**	182,943
Nonoperating (expenses) income	**(3,737)**	852
Income from continuing operations before income taxes and equity in income of equity investments	**157,157**	183,795
Income taxes	**56,644**	66,888
Income from continuing operations before equity in income of equity investments	**100,513**	116,907
Equity in income of equity investments, net of tax	**2,669**	3,271
Income from continuing operations, net of tax	**103,182**	120,178
(Loss) income from discontinued operations, net of tax	**(2,223)**	467
Net income	**100,959**	120,645
Net income attributable to noncontrolling interests	**(986)**	(947)
Net income attributable to TSYS	**$ 99,973**	119,698
Basic EPS (Note 17)*:		
Income from continuing operations	**$ 0.52**	0.60
(Loss) income from discontinued operations	**(0.01)**	0.00

Net income	$	**0.51**	0.60
Diluted EPS*:			
Income from continuing operations	$	**0.52**	0.60
(Loss) income from discontinued operations		**(0.01)**	0.00
Net income	$	**0.51**	0.60
Amounts attributable to TSYS common shareholders:			
Income from continuing operations	$	**102,196**	119,231
(Loss) income from discontinued operations		**(2,223)**	467
Net income	$	**99,973**	119,698

* Note: Basic and diluted EPS amounts for continuing operations and net income do not total due to rounding.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

(in thousands)	Six months ended June 30, 2009	2008
Cash flows from operating activities:		
Net income	**$ 100,959**	120,645
Adjustments to reconcile net income attributable to TSYS to net cash provided by operating activities:		
Net loss (gain) on foreign currency	**3,953**	(2,141)
Equity in income of equity investments, net of tax	**(2,669)**	(3,271)
Dividends received from equity investments	**4,718**	3,248
Depreciation and amortization	**77,967**	79,755
Amortization of debt issuance costs	**77**	77
Share-based compensation	**9,237**	15,675
Excess tax benefit from share-based payment arrangements	**(6)**	(81)
Provisions for bad debt expenses and billing adjustments	**646**	3,201
Charges for transaction processing provisions	**4,014**	(541)
Deferred income tax benefit	**(6,502)**	(9,016)
Loss on disposal of equipment, net	**9**	159
(Increase) decrease in:		
Accounts receivable	**22,198**	(14,130)
Prepaid expenses, other current assets and other long-term assets	**18,830**	870
Increase (decrease) in:		
Accounts payable	**(7,376)**	686
Accrued salaries and employee benefits	**(20,218)**	(37,814)
Other current liabilities and other long-term liabilities	**13,258**	17,150
Net cash provided by operating activities	**219,095**	174,472
Cash flows from investing activities:		
Purchases of property and equipment, net	**(13,784)**	(26,296)
Additions to licensed computer software from vendors	**(12,709)**	(8,598)
Additions to internally developed computer software	**(12,918)**	(8,332)
Cash used in acquisitions	**(293)**	
Additions to contract acquisition costs	**(17,105)**	(28,417)
Net cash used in investing activities	**(56,809)**	(71,643)
Cash flows from financing activities:		
Dividends paid on common stock	**(27,595)**	(27,768)
Repurchase of common stock	**(329)**	(23,594)
Subsidiary dividends paid to noncontrolling shareholders	**(235)**	(241)
Excess tax benefit from share-based payment arrangements	**6**	81
Principal payments on long-term debt borrowings and capital lease obligations	**(9,786)**	(6,870)
Proceeds from borrowings	**5,334**	2,506
Proceeds from exercise of stock options	**2**	251

Net cash used in financing activities		**(32,603)**	(55,635)
Effect of exchange rate changes on cash and cash equivalents		**(3,422)**	91
Net increase in cash and cash equivalents		**126,261**	47,285
Cash and cash equivalents at beginning of period		**220,019**	210,518
Cash and cash equivalents at end of period	**$**	**346,280**	257,803
Supplemental cash flow information:			
Interest paid	**$**	**1,753**	6,227
Income taxes paid, net	**$**	**35,511**	62,175

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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TOTAL SYSTEM SERVICES, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Total System Services, Inc.® (TSYS® or the Company) include the accounts of TSYS and its wholly-owned subsidiaries as well as TSYS majority owned foreign subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. These estimates and assumptions are developed based upon all information available. Actual results could differ from estimated amounts. All adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of financial position and results of operations for the periods covered by this report have been included.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company s summary of significant accounting policies, consolidated financial statements and related notes appearing in the Company s 2008 Annual Report previously filed on Form 10-K. Results of interim periods are not necessarily indicative of results to be expected for the year.

As a result of the pending sale of TSYS Total Debt Management, Inc. (TDM) as discussed in Note 2, the Company s financial statements reflect TDM as discontinued operations. The Company has segregated the net assets, net liabilities and operating results from continuing operations on the Unaudited Condensed Consolidated Balance Sheets and Unaudited Condensed Consolidated Statements of Income for all periods presented.

Certain reclassifications have been made to the 2008 financial statements to conform to the presentation adopted in 2009.

Note 2 Discontinued Operations

The Company is in the process of selling TDM. The decision to sell the TDM business was the result of management s decision to divest non-strategic businesses and focus resources on core products and services. TDM was part of the North America Services segment.

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company determined that the TDM business became a discontinued operation in the first quarter of 2009.

The following table presents the summarized results of discontinued operations for the three and six months ended June 30, 2009, as compared to 2008:

	Three months ended June 30,			**Six months ended June 30,**		
(in millions)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Revenues before reimbursable items	**$ 7.6**	9.3	(18.3)%	**$ 15.0**	16.2	(7.8)%
Total revenues	**60.7**	53.5	13.5	**127.5**	95.4	33.7
Operating (loss) income	**1.8**	0.4	nm	**(3.5)**	0.7	nm
Income taxes	**0.7**	0.1	nm	**(1.2)**	0.2	nm
(Loss) income from discontinued operations, net of tax	**1.1**	0.2	nm	**(2.2)**	0.4	nm

nm

= not
meaningful

The Unaudited Condensed Consolidated Statements of Cash Flows will include TDM through the date of disposition.

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The following table presents the quarterly and year-to-date summary of 2008 consolidated financial results for TSYS with TDM classified as discontinued operations:

(in thousands)	Three Months Ended March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	Twelve Months Ended December 31, 2008
Revenues before reimbursable items	$ 353,130	363,055	372,703	367,866	$ 1,456,754
Reimbursable items	66,696	66,575	66,742	64,879	264,892
Total revenues	419,826	429,630	439,445	432,745	1,721,646
Total expenses	333,730	332,782	344,155	342,304	1,352,971
Operating income	86,096	96,848	95,290	90,441	368,675
Nonoperating income (loss)	1,280	(429)	(82)	5,003	5,772
Income before income taxes	87,376	96,419	95,208	95,444	374,447
Income taxes	32,907	33,981	34,091	30,227	131,206
Income before equity income	54,469	62,438	61,117	65,217	243,241
Equity income	2,162	1,109	3,062	1,064	7,397
Income from continuing operations, net of tax	56,631	63,547	64,179	66,281	250,638
Income from discontinued operations, net of tax	233	234	269	302	1,038
Net income	56,864	63,781	64,448	66,583	251,676
Noncontrolling interests	(250)	(697)	(374)	(255)	(1,576)
Net income attributable to TSYS common shareholders	$ 56,614	63,084	64,074	66,328	$ 250,100

Note 3 Fair Value Measurement

SFAS No. 157, *Fair Value Measurements,* requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant level of inputs. The three-tier fair value hierarchy , which prioritizes the inputs used in the valuation methodologies is as follows:

Level 1 Quoted prices for identical assets and liabilities in active markets.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs for the asset of liability.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits the Company to choose to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159 on January 1, 2008, TSYS did not elect the fair value option for any financial instrument it did not currently report at fair value.

Goodwill and certain intangible assets not subject to amortization are assessed annually for impairment in the second quarter of each year using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step test. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its book value, including goodwill. If the fair value of the reporting unit exceeds its book value, goodwill is considered not impaired and the second step of the impairment test is unnecessary. If the book value of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the book value of that goodwill. If the book value of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

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The estimate of fair value of the Company s goodwill reporting units is determined using various valuation techniques including using the combination of the income approach and the market approach. The market approach, which contains Level 2 inputs, utilizes readily available market valuation multiples to estimate fair value. The income approach is a valuation technique that utilizes the discounted cash flow (DCF) method which includes Level 3 inputs. Under the DCF method, the fair value of the asset reflects the present value of the projected earnings that will be generated by each asset after taking into account the revenues and expenses associated with the asset, the relative risk that the cash flows will occur, the contribution of other assets, and an appropriate discount rate to reflect the value of the invested capital. Cash flows are estimated for future periods based upon historical data and projections by management.

At June 30, 2009, the Company had unamortized goodwill in the amount of $168.1 million. The Company performed its annual impairment analyses of its unamortized goodwill balance as of May 31, 2009, and this test did not indicate any impairment.

Note 4 Supplementary Balance Sheet Information

Cash and Cash Equivalents

The Company maintains accounts outside the United States denominated in currencies other than the U.S. dollar. All amounts in domestic accounts are denominated in U.S. dollars.

Cash and cash equivalent balances are summarized as follows:

(in thousands)		**June 30, 2009**	December 31, 2008
Cash and cash equivalents in domestic accounts	**$**	**295,329**	149,047
Cash and cash equivalents in foreign accounts		**49,114**	62,318
Total	**$**	**344,443**	211,365

At June 30, 2009 and December 31, 2008, the Company on a consolidated basis had approximately $327.3 million and $197.7 million, respectively, of cash balances and cash equivalents of $17.1 million and $13.7 million in Money Market accounts that had an original maturity date of 90 days or less. The Company considers cash equivalents to be short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of change in interest rates. The Company purchased $67.5 million of 90-day certificates of deposit through nine of its companies as of June 30, 2009. The Company insured $271.1 million of its funds through December 31, 2009 by the Federal Deposit Insurance Corporation.

Prepaid Expenses and Other Current Assets

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

(in thousands)		**June 30, 2009**	December 31, 2008
Prepaid expenses	$	**16,032**	14,079
Supplies inventory		**9,654**	9,586
Income taxes receivable		**13**	23,752
Other		**54,397**	41,195
Total	**$**	**80,096**	88,612

Contract Acquisition Costs, net

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

(in thousands)

		June 30, 2009	December 31, 2008
Payments for processing rights, net of accumulated amortization of $144.1 million and $126.5 million at 2009 and 2008, respectively	$	**65,117**	73,201
Conversion costs, net of accumulated amortization of $65.9 million and $56.1 million at 2009 and 2008, respectively		**67,450**	58,367
Total	$	**132,567**	131,568

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Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was $5.6 million and $6.9 million for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, amortization related to payments for processing rights was $13.7 million and $13.2 million, respectively.

Amortization expense related to conversion costs, which is recorded in other operating expenses, was $4.2 million and $3.2 million for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, amortization related to conversion costs was $8.2 million and $6.7 million, respectively.

Other Current Liabilities

Significant components of other current liabilities are summarized as follows:

(in thousands)		**June 30, 2009**	December 31, 2008
Deferred revenues	$	**36,320**	22,619
Accrued expenses		**26,655**	27,510
Client liabilities		**26,062**	30,723
Dividends payable		**13,811**	13,780
Accrued income taxes		**9,926**	2,808
Transaction processing provisions		**8,883**	5,417
Client postage deposits		**4,040**	3,772
Other		**26,355**	24,886
Total	**$**	**152,052**	131,515

Note 5 Long-Term Debt

Refer to Note 11 of the Company s audited financial statements for the year ended December 31, 2008 which are included as Exhibit 13.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the SEC, for a discussion regarding long-term debt.

On October 31, 2008, the Company s International Services segment obtained a credit agreement from a third-party to borrow up to approximately ¥2.0 billion, or $21 million, in a Yen-denominated three year loan to finance activities in Japan. The rate is London Interbank Offered Rate (LIBOR) plus 80 basis points. In 2008, the Company initially made a draw down of ¥1.5 billion, or approximately $15.1 million. In January 2009, the Company made an additional draw down of ¥250 million, or approximately $2.8 million. In April 2009, the Company made an additional draw down of ¥250 million, or approximately $2.5 million.

Note 6 Equity and Noncontrolling Interests

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* - an amendment of ARB No. 51. SFAS No. 160 changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated shareholders equity, the elimination of minority interest accounting in results of operations and changes in the accounting for both increases and decreases in a parent s controlling ownership interest.

Below is a summary of the changes in the statement of equity as a result of the adoption of SFAS No. 160 through six months ended June 30, 2009:

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	TSYS Shareholders							
	Common Stock							
(in thousands, except per share data)	Shares	Dollars	Additional paid-in Capital	Accumulated Other Comprehensive Income (Loss) (OCI)	Treasury Stock	Retained Earnings	Non-controlling Interests	Total Equity
Balance, December 31, 2008	200,356	$ 20,036	126,889	(6,627)	(69,641)	920,292	9,901	$ 1,000,850
Comprehensive income:								
Net income						99,973	986	100,959
Other comprehensive income, net of tax:								
Foreign currency translation				14,622			(342)	14,280
Change in accumulated OCI related to postretirement healthcare plans				67			¾	67
Other comprehensive income				14,689			(342)	14,347
Comprehensive income								115,306
Common stock issued from treasury shares for exercise of stock options			(18)		20			2
Common stock issued for nonvested awards	472	47	(47)					
Share-based compensation			9,323					9,323
Cash dividends and dividend equivalents declared ($0.14 per share)						(27,627)		(27,627)
Purchase of treasury shares					(329)			(329)
Tax shortfalls associated with share-based payment arrangements			(3,065)					(3,065)

Balance, June 30, 2009	**200,828**	**$ 20,083**	**133,082**	**8,062**	**(69,950)**	**992,638**	**10,545**	**$ 1,094,460**

Note 7 Comprehensive Income

For the three months ended June 30, comprehensive income is summarized below:

	For the three months ended June 30, 2009			For the three months ended June 30, 2008		
(in thousands)	TSYS Shareholders	Noncontrolling Interests	Total	TSYS Shareholders	Noncontrolling Interests	Total
Net income	$ 53,447	571	$ 54,018	$ 63,084	697	$ 63,781
Other comprehensive income (OCI), net of tax:						
Foreign currency translation adjustments	18,398	245	18,643	377	(688)	(311)
Change in accumulated OCI related to postretirement healthcare plans	46		46	13		13
Total	**$ 71,891**	**816**	**$ 72,707**	$ 63,474	9	$ 63,483

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For the six months ended June 30, comprehensive income is summarized below:

	For the six months ended June 30, 2009			For the six months ended June 30, 2008		
(in thousands)	TSYS Shareholders	Noncontrolling Interests	Total	TSYS Shareholders	Noncontrolling Interests	Total
Net income	$ 99,973	986	$ 100,959	$ 119,698	947	$ 120,645
Other comprehensive income (OCI), net of tax:						
Foreign currency translation adjustments	14,622	(342)	14,280	4,730	274	5,004
Change in accumulated OCI related to postretirement healthcare plans	67		67	25		25
Total	**$ 114,662**	**644**	**$ 115,306**	$ 124,453	1,221	$ 125,674

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

(in thousands)	Beginning Balance December 31, 2008	Pretax Amount	Tax Effect	Net-of-Tax Amount	Ending Balance June 30, 2009
Foreign currency translation adjustments	**$ (5,858)**	**$ 17,939**	**(3,317)**	**$ 14,622**	**$ 8,764**
Change in accumulated OCI related to postretirement healthcare plans	**(769)**	**98**	**(31)**	**67**	**(702)**
Total	**$ (6,627)**	**$ 18,037**	**(3,348)**	**$ 14,689**	**$ 8,062**

Consistent with its overall strategy of pursuing international investment opportunities, TSYS adopted the permanent reinvestment exception under Accounting Principles Board Opinion No. 23 (APB 23) *Accounting for Income Taxes Special Areas,* with respect to future earnings of certain foreign subsidiaries. Its decision to permanently reinvest foreign earnings offshore means TSYS will no longer allocate taxes to foreign currency translation adjustments associated with these foreign subsidiaries accumulated in other comprehensive income.

Note 8 Share-Based Compensation

The Company s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the SEC, contains a discussion of the Company s share-based compensation plans and policy.

Share-Based Compensation

TSYS share-based compensation costs are included as expenses and classified as salaries, other personnel expenses and spin-related expenses. TSYS does not include amounts associated with share-based compensation as costs capitalized as software development and contract acquisition costs as these awards are typically granted to individuals not involved in capitalizable activities. For the three months ended June 30, 2009, share-based compensation was $4.0 million, compared to $6.0 million for the same period in 2008. Included in the $4.0 million amount for 2009 and $6.0 million amount for 2008 is approximately $1.0 million and $2.2 million, respectively, related to expensing the fair value of stock options. For the six months ended June 30, 2009, share-based compensation was $9.2 million, compared to $9.7 million for the same period in 2008. Included in the $9.2 million amount for 2009 and $9.7 million amount for 2008 is approximately $3.4 million and $3.7 million, respectively, related to expensing the fair value of stock options.

Nonvested Share Awards

During the first six months of 2009, the Company issued 457,220 shares of TSYS common stock with a market value of $6.0 million to certain key employees and non-management members of its Board of Directors under nonvested stock bonus awards for services to be provided in the future by such officers, directors and employees. The market value of the TSYS common stock at the date of issuance is amortized as compensation expense over the vesting period of the awards.

During the first six months of 2008, the Company issued 697,911 shares of TSYS common stock with a market value of $15.3 million to certain key employees and non-management members of its Board of Directors under nonvested stock bonus awards for services to be provided in the future by such officers, directors and employees. The market value of the TSYS common stock at the date of issuance is amortized as compensation expense over the vesting period of the awards.

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As of June 30, 2009, there was approximately $16.7 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a remaining weighted average period of 2.3 years.

During the first six months of 2008, TSYS authorized a total grant of 182,816 shares of nonvested stock to two key executives with a performance-vesting schedule (2008 performance-vesting shares). These 2008 performance-vesting shares have seven one-year performance periods (2008-2014) during each of which the Compensation Committee establishes an earnings per share goal and, if such goal is attained during any performance period, 20% of the performance-vesting shares will vest, up to a maximum of 100% of the total grant. Compensation expense for each year s award is measured on the grant date based on the quoted market price of TSYS common stock and is expensed on a straight-line basis for the year.

During 2005, TSYS authorized a total grant of 126,087 shares of nonvested stock to two key executives with a performance-vesting schedule (2005 performance-vesting shares). These performance-vesting shares have seven one-year performance periods (2005-2011) during each of which the Compensation Committee establishes an earnings per share goal and, if such goal is attained during any performance period, 20% of the performance-vesting shares will vest, up to a maximum of 100% of the total grant. Compensation expense for each year s award is measured on the grant date based on the quoted market price of TSYS common stock and is expensed on a straight-line basis for the year.

As of June 30, 2009, there was approximately $564,000 of total unrecognized compensation cost related to both the 2008 grant and 2005 grant of nonvested performance-vesting share-based compensation arrangements. That cost is expected to be recognized over the remainder of 2009.

Performance Based Awards

During the first quarters of 2009 and 2008, respectively, TSYS authorized performance based awards that have a market condition calculated on a combination of earnings per share growth and TSYS performance compared to a three-year Total Shareholder Return versus peers. Vesting of the awards will occur on the last day of the three-year market condition valuation period if the participant is still employed on that date. The fair value of these awards is based on a Monte Carlo simulation as prescribed by SFAS No. 123 (Revised), *Share-Based Payment (Revised).* Although authorized by the TSYS Board, the final amount of the awards is not known until the Compensation Committee has determined the final terms of the awards, at which time the award is deemed granted. The March 2008 award was authorized in 2008, however it was not deemed granted until the Compensation Committee determined the final terms of the award in January 2009. Likewise, the January 2009 award was authorized in 2009, however the award will not be deemed granted until the Compensation Committee determines the final terms of the award, which is expected to be in January 2010. The awards will be amortized through the end of the respective three-year periods.

A summary of the awards authorized in each year is below:

Month Authorized	Primary Measure	Secondary Measure	Fair Value Method	Estimated Valuation	Amortized through	Retirement Provision	Grant Date Terms Determined
January 2009	2009 EPS Growth	Three-year Total Shareholder Return (2009-2011)	Monte Carlo simulation	$4.0 million	December 2011	Age 62 with 15 years of service, or age 65 regardless of service	To be determined (January 2010)
March 2008	2008 EPS Growth	Three-year Total Shareholder	Monte Carlo simulation	$1.0 million	December 2010	Age 62 with 15 years of service, or	January 2009

Return (2008-2010)	age 65 regardless of service

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Until the awards were deemed granted, TSYS excluded the issuance of these awards in reporting shares outstanding from the calculation of basic and diluted EPS (although related compensation expense on these awards are included properly in net income and related EPS calculation).

In March 2009, the Company determined that its was no longer probable that the specified performance measures associated with performance based awards issued in 2009 would be achieved. As a result, the performance based awards issued during 2009 are not expected to vest, and the Company has not recognized any share-based compensation expense related to these awards.

Stock Option Awards

During the first six months of June 2009, the Company granted 1,047,949 stock options to key TSYS executive officers. The average fair value of the option grant was $5.31 per option and was estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions: exercise price of $13.11; risk-free interest rate of 3.19%; expected volatility of 42.00%; expected term of 8.6 years; and dividend yield of 2.14%.

During the first six months of June 2008, the Company granted 771,892 stock options to key TSYS executive officers. The average fair value of the option grant was $9.73 per option and was estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions: exercise price of $23.15; risk-free interest rate of 3.42%; expected volatility of 36.57%; expected term of 8.7 years; and dividend yield of 1.21%.

As of June 30, 2009, there was approximately $6.9 million of total unrecognized compensation expense cost related to TSYS stock options that is expected to be recognized over a remaining weighted average period of 2.1 years.

Note 9 Cost of Services and Selling, General and Administrative Expenses

The Company s operating expenses consists of cost of services and selling, general and administrative expenses. The Company presents these expenses as employment, technology and facilities and other expenses. Overall, the Company believes its expenses consist predominately of cost of sales type expenses, while selling, general and administrative expenses are insignificant.

Note 10 Income Taxes

TSYS is the parent of an affiliated group that files a consolidated U.S. Federal income tax return and most state and foreign income tax returns on a separate entity basis. In the normal course of business, the Company is subject to examinations by these taxing authorities unless statutory examination periods lapse. TSYS is no longer subject to U.S. Federal income tax examinations for years before 2005 and with a few exceptions, the Company is no longer subject to income tax examinations from state and local authorities for years before 2001 and from foreign authorities before 2003. There are currently no Federal tax examinations in progress. However, a number of tax examinations are in progress by the relevant foreign and state tax authorities. Although TSYS is unable to determine the ultimate outcome of these examinations, TSYS believes that its liability for uncertain tax positions relating to these jurisdictions for such years is adequate.

TSYS effective tax rate was 35.9% and 35.1% for the three months ended June 30, 2009 and June 30, 2008, respectively. TSYS effective tax rate was 35.8% and 36.0% for the six months ended June 30, 2009 and June 30, 2008, respectively. The rate differences during the June 30, 2008 period was mostly due to discrete items charged during the 2008 period.

TSYS adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109* (FIN 48) on January 1, 2007. This interpretation prescribed a recognition threshold and measurement attribute for the financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken in a tax return. The amount of unrecognized tax benefits did not change significantly during the six months ended June 30, 2009.

TSYS recognizes potential interest and penalties related to the underpayment of income taxes as income tax expense in the condensed consolidated statements of income. Gross accrued interest and penalties on unrecognized tax benefits totaled $1.4 million and $1.3 million as of June 30, 2009 and December 31, 2008, respectively. The total amounts of unrecognized income tax benefits as of June 30, 2009 and December 31, 2008 that, if recognized, would affect the effective tax rates are $4.6 million and $4.3 million (net of the Federal benefit on state tax issues), respectively, which include interest and penalties of $1.1 million and $1.1 million. TSYS does not expect any material changes to its calculation of uncertain tax positions during the next twelve months.

Note 11 Segment Reporting and Major Customers

The Company reports selected information about operating segments in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company s segment information reflects the information that the chief operating decision maker (CODM) uses to make resource allocations and strategic decisions. The CODM at TSYS consists of the chairman of the board and chief executive officer, the president and the four senior executive vice presidents.

Through online accounting and electronic payment processing systems, TSYS provides electronic payment processing and other services to card-issuing and merchant acquiring institutions in the United States and internationally. During the second quarter of 2008, TSYS reorganized and renamed its operating segments in a manner that reflects the way the CODM views the business. The new operating segments are North America Services segment, International Services segment and Merchant Services segment. As part of the reorganization, TSYS reclassified the segment results for TSYS de Mexico from International Services to North America Services to reflect the change.

During the first quarter of 2009, the Company decided to sell TDM. As a result, TDM is classified as discontinued operations for all periods. TDM was included in the North America Services segment. Refer to Note 2 for more information.

North America Services includes electronic payment processing services and other services provided from within the North America region. International Services includes electronic payment processing and other services provided from outside the North America region. Merchant Services includes electronic processing and other services provided to merchant acquiring institutions.

(in thousands) **Operating Segments**	North America Services	International Services	Merchant Services	Spin-Related Costs	Consolidated
At June 30, 2009					
Identifiable assets	**$ 1,471,374**	**353,547**	**219,179**		**$ 2,044,100**
Intersegment eliminations	**(408,939)**	**(352)**	**(30)**		**(409,321)**
Total assets	**$ 1,062,435**	**353,195**	**219,149**		**$ 1,634,779**
At December 31, 2008					
Identifiable assets	$ 1,416,724	324,313	212,779		$ 1,953,816
Intersegment eliminations	(402,051)	(977)	¾		(403,028)
Total assets	$ 1,014,673	323,336	212,779		$ 1,550,788
Three months ended June 30, 2009					
Revenues before reimbursable items	**$ 222,949**	**73,283**	**62,153**		**$ 358,385**
Intersegment revenues	**(6,707)**	**(591)**	**(366)**		**(7,664)**
Revenues before reimbursable items from external customers	**$ 216,242**	**72,692**	**61,787**		**$ 350,721**
Total revenues	**$ 264,984**	**76,432**	**80,338**		**$ 421,754**
Intersegment revenues	**(8,804)**	**(591)**	**(366)**		**(9,761)**
Revenues from external customers	**$ 256,180**	**75,841**	**79,972**		**$ 411,993**
Depreciation and amortization	**$ 21,192**	**8,776**	**8,149**		**$ 38,117**

Intersegment expenses	**$ 1,633**	**(3,584)**	**(7,809)**		**$ (9,760)**
Operating income	**$ 58,177**	**9,219**	**15,383**		**$ 82,779**
Income from continuing operations before income taxes, noncontrolling interest and equity in income of equity investments	**$ 59,341**	**5,890**	**15,270**		**$ 80,501**
Income taxes	**$ 21,489**	**2,513**	**5,227**		**$ 29,229**
Equity in income of equity investments	**$ 601**	**1,025**			**$ 1,626**
Income from continuing operations, net of tax	**$ 38,453**	**4,402**	**10,043**		**$ 52,898**
Three months ended June 30, 2008					
Revenues before reimbursable items	$ 232,928	77,032	58,291		$ 368,251
Intersegment revenues	(4,663)	(286)	(247)		(5,196)
Revenues before reimbursable items from external customers	$ 228,265	76,746	58,044		$ 363,055
Total revenues	$ 282,686	79,902	74,567		$ 437,155
Intersegment revenues	(6,992)	(286)	(247)		(7,525)
Revenues from external customers	$ 275,694	79,616	74,320		$ 429,630
Depreciation and amortization	$ 24,358	8,797	6,682		$ 39,837
Intersegment expenses	$ 2,639	(2,648)	(7,514)		$ (7,523)
Operating income	$ 68,276	11,741	18,086	(1,255)	$ 96,848
Income from continuing operations before income taxes, noncontrolling interest and equity in income of equity investments	$ 68,527	10,867	18,280	(1,255)	$ 96,419
Income taxes	$ 23,494	4,298	6,637	(448)	$ 33,981
Equity in income of equity investments	$ 807	302			$ 1,109
Income from continuing operations, net of tax	$ 45,840	6,871	11,643	(807)	$ 63,547

Six months ended June 30, 2009						
Revenues before reimbursable items	$	**446,732**	**143,867**	**120,359**	$	**710,958**
Intersegment revenues		**(12,595)**	**(1,436)**	**(759)**		**(14,790)**
Revenues before reimbursable items from external customers	$	**434,137**	**142,431**	**119,600**	$	**696,168**

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(in thousands) **Operating Segments**	North America Services	International Services	Merchant Services	Spin-Related Costs	Consolidated
Total revenues	**$ 533,773**	**150,235**	**155,836**		**$ 839,844**
Intersegment revenues	**(16,722)**	**(1,436)**	**(759)**		**(18,917)**
Revenues from external customers	**$ 517,051**	**148,799**	**155,077**		**$ 820,927**
Depreciation and amortization	**$ 44,701**	**16,483**	**16,235**		**$ 77,419**
Intersegment expenses	**$ 2,944**	**(6,647)**	**(15,214)**		**$ (18,917)**
Operating income	**$ 116,211**	**15,223**	**29,460**		**$ 160,894**
Income from continuing operations before income taxes, noncontrolling interest and equity in income of equity investments	**$ 117,396**	**10,678**	**29,083**		**$ 157,157**
Income taxes	**$ 41,082**	**5,391**	**10,171**		**$ 56,644**
Equity in income of equity investments	**$ 1,267**	**1,402**			**$ 2,669**
Income from continuing operations, net of tax	**$ 77,581**	**6,689**	**18,912**		**$ 103,182**
Six months ended June 30, 2008					
Revenues before reimbursable items	$ 468,788	144,989	113,420		$ 727,197
Intersegment revenues	(9,894)	(689)	(429)		(11,012)
Revenues before reimbursable items from external customers	$ 458,894	144,300	112,991		$ 716,185
Total revenues	$ 569,697	149,726	145,504		$ 864,927
Intersegment revenues	(14,354)	(689)	(429)		(15,472)
Revenues from external customers	$ 555,343	149,037	145,075		$ 849,455
Depreciation and amortization	$ 49,090	16,492	13,236		$ 78,818
Intersegment expenses	$ 5,413	(6,189)	(14,694)		$ (15,470)
Operating income	$ 138,747	19,186	33,160	(8,150)	$ 182,943
Income from continuing operations before income taxes, noncontrolling	$ 138,664	19,618	33,663	(8,150)	$ 183,795

interest and equity in income of equity investments							
Income taxes	$	50,002	7,212	12,045	(2,371)	$	66,888
Equity in income of equity investments	$	1,695	1,576			$	3,271
Income from continuing operations, net of tax	$	90,357	13,982	21,618	(5,779)	$	120,178

Revenues by Geographic Area

Revenues for North America Services and Merchant Services include electronic payment processing and other services provided from the United States to clients domiciled in the United States or other countries. Revenues for International Services include electronic payment processing and other services provided from facilities outside the United States to clients based predominantly outside the United States.

The following geographic data presents revenues for the three and six months ended June 30, 2009 and 2008, respectively, based on the domicile of the Company s customers.

	Three months ended June 30,		**Six months ended June 30,**	
(in millions)	**2009**	2008	**2009**	2008
United States	**$ 297.4**	311.9	**$ 597.9**	624.2
Europe*	**60.7**	68.3	**118.5**	127.2
Canada	**33.5**	31.3	**64.1**	62.9
Japan*	**11.1**	8.1	**22.2**	15.6
Mexico	**2.0**	4.0	**4.2**	7.7
Other	**7.3**	6.0	**14.0**	11.9
Total	**$ 412.0**	429.6	**$ 820.9**	849.5

* Revenues are impacted by movements in foreign currency exchange rates. Refer to the discussion under Revenues in the Results of Operations.

The following table reconciles geographic revenues to revenues by reportable segment for the three months ended June 30, 2009 and 2008, respectively, based on the domicile of the Company s customers.

	North America Services		International Services		Merchant Services	
(in millions)	**2009**	2008	**2009**	2008	**2009**	2008
United States	**$ 217.7**	237.9			**79.7**	74.0
Europe	**0.2**	0.2	**60.5**	68.1		
Canada	**33.4**	31.1			**0.1**	0.2

Japan			**11.1**	8.1		
Mexico	**2.0**	4.0				
Other	**2.9**	2.5	**4.2**	3.4	**0.2**	0.1
Total	**$ 256.2**	275.7	**75.8**	79.6	**80.0**	74.3

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The following table reconciles geographic revenues to revenues by reportable segment for the six months ended June 30, 2009 and 2008, respectively, based on the domicile of the Company s customers.

	North America Services		International Services		Merchant Services	
(in millions)	**2009**	2008	**2009**	2008	**2009**	2008
United States	**$ 443.4**	479.7		0.1	**154.5**	144.4
Europe	**0.4**	0.5	**118.1**	126.7		
Canada	**63.9**	62.6			**0.2**	0.3
Japan			**22.2**	15.6		
Mexico	**4.2**	7.7				
Other	**5.1**	4.9	**8.5**	6.6	**0.4**	0.4
Total	**$ 517.0**	555.4	**148.8**	149.0	**155.1**	145.1

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

(in millions)	**At June 30, 2009**	At December 31, 2008
United States	**$ 203.4**	215.5
Europe	**62.7**	54.1
Japan	**4.6**	3.5
Other	**9.6**	6.6
Total	**$ 280.3**	279.7

Major Customers

For the three months ended June 30, 2009, the Company had one major customer which accounted for approximately 12.6%, or $51.7 million, of total revenues. For the three months ended June 30, 2008, this major customer accounted for approximately 11.7%, or $56.5 million, of total revenues. For the six months ended June 30, 2009, the Company had one major customer which accounted for approximately 12.8%, or $104.9 million, of total revenues. For the six months ended June 30, 2008, this major customer accounted for approximately 12.3%, or $111.3 million, of total revenues. Revenues from major customers for the periods reported are primarily attributable to the North America Services and Merchant Services segments.

Note 12 Supplementary Cash Flow Information

Contract Acquisition Costs

Cash used for contract acquisition costs for the six months ended June 30, 2009 and 2008, respectively, are summarized as follows:

(in thousands)	**June 30, 2009**	June 30, 2008
Payments for processing rights	**$ 2,711**	12,401
Conversion costs	**14,394**	16,016
Total	**$ 17,105**	28,417

Nonvested Awards

During the first six months of 2009 and 2008, the Company issued shares of common stock to certain key employees and non-management members of its Board of Directors under nonvested stock bonus awards for services to be provided by such key employees and directors in the future. Refer to Note 8 for more information.

Equipment and Software Acquired Under Capital Lease Obligations

The Company acquired equipment and software under capital lease obligations in the amount of $4.3 million during 2009 related to storage and other peripheral hardware. The Company acquired software under capital lease obligations in the amount of $6.5 million during 2008 related to a software enterprise license agreement and storage and other peripheral hardware.

Note 13 Legal Proceedings

The Company is subject to various legal proceedings and claims and is also subject to information requests, inquiries and investigations arising out of the ordinary conduct of its business. In the opinion of management, based in part upon the advice of legal counsel, all matters are believed to be adequately covered by insurance, or if not covered, are believed to be without merit or are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that TSYS determines to be both probable and reasonably estimable in accordance with SFAS No. 5, *Accounting for Contingencies.*

Note 14 Guarantees and Indemnifications

The Company has entered into processing and licensing agreements with its clients that include intellectual property indemnification clauses. The Company generally agrees to indemnify its clients, subject to certain exceptions, against legal claims that TSYS services or systems infringe on certain third party patents, copyrights or other proprietary rights. In the event of such a claim, the Company is generally obligated to hold the client harmless and pay for related losses, liabilities, costs and expenses, including, without limitation, court costs and reasonable attorney s fees. The Company has not made any indemnification payments pursuant to these indemnification clauses. In addition, the Company has indemnification obligations to Synovus Financial Corp. pursuant to the disaffiliation and related agreements entered into by the parties in connection with the spin-off.

The Company has not recorded a liability for guarantees or indemnities in the accompanying condensed consolidated balance sheets since neither a range nor a maximum amount of potential future payments under such guarantees and indemnities is determinable.

Note 15 Business Combinations

Infonox on the Web

The Company acquired Infonox on the Web (Infonox) on November 4, 2008 for approximately $50.5 million, with contingent payments over the next three years of up to $25 million based on performance. Infonox provides payment products on self-service and full-service transaction touch points in the gaming, banking and retail markets. The company delivers, manages, operates and supports services for several large publicly traded companies. The acquisition will add new payment technology and acceptance capabilities. Infonox is based in Sunnyvale, California, with an office in Pune, India.

The preliminary purchase price allocation is presented below:

(in thousands)	
Cash and cash equivalents	$ 899
Intangible assets	21,500
Goodwill	29,141
Other assets	3,222
Total assets acquired	54,762
Liabilities assumed	4,190
Net assets acquired	$ 50,572

Revenues associated with Infonox are included in merchant acquiring services and are included in Merchant Services for segment reporting purposes.

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Note 16 Collaborative Arrangement

In January 2009, TSYS adopted the FASB Emerging Issue Task Force No. 07-1 (EITF 07-1), *Accounting for Collaborative Arrangements.* EITF 07-1 is effective for reporting periods beginning after December 15, 2008, and it requires restatement of prior periods for all collaborative arrangements existing as of the effective date. Prior to the adoption of EITF 07-1, TSYS used the equity method of accounting for the joint ownership of the aircraft enterprise.

In December 2007, TSYS acquired for approximately $12.1 million a 45% ownership interest in an enterprise jointly owned with two other entities which operates aircraft for the owners internal use. The arrangement allows each entity access to the aircraft and each entity pays for its usage of the aircraft. Each quarter, the net operating results of the enterprise are shared among the owners based on their respective ownership percentage.

TSYS records its usage of the aircraft and its share of net operating results of the enterprise in Other Operating Expenses. The amounts of expense the Company recorded that is attributable to the collaborative arrangement for the three and six months ended June 30, 2008 is $479,252 and $779,252, respectively.

The following table illustrates the effect of the retrospective application on its Expenses and Equity income for its collaborative arrangements existing as of the effective date:

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
(in thousands)	As Previously Reported	Effect of Adoption of EITF 07-1	Currently Reported	As Previously Reported	Effect of Adoption of EITF 07-1	Currently Reported
Other operating expenses	$	479	$ 479	$	779	$ 779
Total operating expenses	$	479	$ 479	$	779	$ 779
Operating profit	$	(479)	$ (479)	$	(779)	$ (779)
Equity in income of equity investments, net of tax	$ (479)	479		$ (779)	779	
Net income	$ (479)		$ (479)	$ (779)		$ (779)

Note 17 Earnings Per Share

In June 2008, the FASB issued a FASB Staff Position EITF 03-6-1 (FSP EITF 03-6-1), *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.* FSP EITF 03-6-1 holds that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities as defined in EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share, and therefore should be included in computing EPS using the two-class method. The impact on the first six months of 2009 and 2008 EPS (as recast to show retroactive adoption of FSP EITF 03-6-1) does not change basic or diluted EPS.

The two-class method is an earnings allocation method for computing EPS when an entity s capital structure includes two or more classes of common stock or common stock and participating securities. It determines EPS based on dividends declared on common stock and participating securities and participation rights of participating securities in any undistributed earnings. FSP EITF 03-6-1 was effective for reporting periods beginning after December 15, 2008, and it requires restatement of prior periods.

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The following table illustrates basic and diluted EPS under the guidance of EITF 03-6-1 for the three months ended June 30, 2009 and 2008:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008	
	Common Stock	**Participating Securities**	Common Stock	Participating Securities
Basic Earnings per share:				
Net income	**$ 53,447**		63,084	
Less income allocated to nonvested awards	**(413)**	**413**	(566)	566
Net income allocated to common stock for EPS calculation (a)	**$ 53,034**	**413**	62,518	566
Average common shares outstanding (b)	**195,634**	**1,530**	196,281	1,781
Basic Earnings per share (a)/(b)	**$ 0.27**	**0.27**	0.32	0.32
Diluted Earnings per share:				
Net income	**$ 53,447**		63,084	
Less income allocated to nonvested awards	**(413)**	**413**	(565)	565
Net income allocated to common stock for EPS calculation (c)	**$ 53,034**	**413**	62,519	565
Average common shares outstanding	**195,634**	**1,530**	196,281	1,781
Increase due to assumed issuance of shares related to common equivalent shares outstanding	**351**		689	
Average common and common equivalent shares outstanding (d)	**195,985**	**1,530**	196,970	1,781
Diluted Earnings per share (c)/(d)	**$ 0.27**	**0.27**	0.32	0.32

The following table illustrates basic and diluted EPS under the guidance of EITF 03-6-1 for the six months ended June 30, 2009 and 2008:

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Common Stock	**Participating Securities**	Common Stock	Participating Securities
Basic Earnings per share:				
Net income	**$ 99,973**		119,698	
Less income allocated to nonvested awards	**(816)**	**816**	(1,003)	1,003
Net income allocated to common stock for EPS calculation (a)	**$ 99,157**	**816**	118,695	1,003

Average common shares outstanding (b)	**195,466**	**1,614**	196,513	1,665
Basic Earnings per share (a)/(b)	**$ 0.51**	**0.51**	0.60	0.60
Diluted Earnings per share:				
Net income	**$ 99,973**		119,698	
Less income allocated to nonvested awards	**(815)**	**815**	(1,000)	1,000
Net income allocated to common stock for EPS calculation (c)	**$ 99,158**	**815**	118,698	1,000
Average common shares outstanding	**195,466**	**1,614**	196,513	1,665

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	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Common Stock	**Participating Securities**	Common Stock	Participating Securities
Increase due to assumed issuance of shares related to common equivalent shares outstanding	**357**		680	
Average common and common equivalent shares outstanding (d)	**195,823**	**1,614**	197,193	1,665
Diluted Earnings per share (c)/(d)	**$ 0.51**	**0.51**	0.60	0.60

The diluted earnings per share calculation excludes stock options and nonvested awards that are convertible into 6.8 million common shares for the three and six months ended June 30, 2009 and excludes 5.6 million and 5.8 million common shares for the three and six months ended June 30, 2008, respectively, because their inclusion would have been anti-dilutive.

Note 18 Subsequent Events

Management performed an evaluation of the Company s activity through August 7, 2009, the date these unaudited financial statements were issued, and has concluded that there are no significant subsequent events requiring disclosure.

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

Financial Overview

Total System Services, Inc. s (TSYS or the Company s) revenues are derived from providing electronic payment processing and related services to financial and nonfinancial institutions, generally under long-term processing contracts. TSYS Total Debt Management, Inc. (TDM) was reported under the North America Services operating segment prior to the Company reflecting it in discontinued operations.

For a detailed discussion regarding the Company s Operations, see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

A summary of the financial highlights for 2009, as compared to 2008, is provided below:

	Three months ended June 30,			Six months ended June 30,		
(in millions, except per share data and employees)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Revenues before reimbursable items	$ **350.7**	363.1	(3.4)%	$ **696.2**	716.2	(2.8)%
Total revenues	**412.0**	429.6	(4.1)	**820.9**	849.5	(3.4)
Operating income	**82.8**	96.8	(14.5)	**160.9**	182.9	(12.1)
Net income attributable to TSYS	**53.4**	63.1	(15.3)	**100.0**	119.7	(16.5)
Basic earnings per share (EPS)[1]:						
Income from continuing operations	**0.27**	0.32	(16.4)	**0.52**	0.60	(13.8)
Net income	**0.27**	0.32	(14.9)	**0.51**	0.60	(16.0)
Diluted EPS[1]:						
Income from continuing operations	**0.27**	0.32	(16.2)	**0.52**	0.60	(13.7)
Net income	**0.27**	0.32	(14.8)	**0.51**	0.60	(15.9)
Cash flows from operating activities	**120.4**	74.5	61.6	**219.1**	174.5	25.6
Other:						
Average accounts on file	**347.9**	371.6	(6.4)	**348.9**	370.9	(5.9)
Cardholder transactions processed	**1,793.5**	1,951.2	(8.1)	**3,522.3**	3,758.2	(6.3)
Average full-time equivalent employees (FTE)	**8,040**	7,572	6.2	**8,048**	7,388	8.9

(1) Basic and diluted EPS is computed based on the two-class method in accordance with FSP EITF 03-6-1. The impact on the first six months of 2009 and 2008 EPS (as recast to show retroactive adoption of FSP EITF 03-6-1)

does not change
basic or diluted
EPS.

Significant highlights for 2009 include:

Corporate

Announced that TDM, a wholly owned subsidiary involved in the late stage collection and bankruptcy business, was moved from continuing operations to discontinued operations pending the closing of the sale of this subsidiary.

North America

Renewed a longstanding relationship with Navy Federal Credit Union to continue offering credit card processing products to members, as a major component of Navy Federal s consumer and credit card lending operation.

Signed an agreement with Unicard Mexico, a wholly owned subsidiary of Unibanco Brasil, one of the world s top 20 banks and TSYS first TS2 card issuing client in Mexico.

Incurred a one-time expense related to resolution of a client issue at TDM.

International

Announced that TSYS has signed a multi-year contract with Banco Carrefour S.A., to process its hybrid and private label card business in Brazil. The agreement includes an initial launch of a new MasterCard hybrid card in June 2009 which will be followed by the conversion of the existing six million private label cards in early 2010. TSYS will process the cards on its TS Prime multi-client payments processing platform.

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Reached an agreement with Travel Bank, Inc., a financial services company that is a part of the JTB Group, to process Japan s first Visa branded Prepaid card in July 2009. Consumers can use the cards to make payments at Visa merchants when traveling overseas or to withdraw cash from Visa ATMs.

Began offering merchant payment services to PaySquare in the Benelux, which is TSYS first acquirer-processing client to go live in Europe.

Announced China UnionPay Data Services Co., Ltd. (CUP Data) (TSYS joint venture with China UnionPay) signed two processing agreements. One agreement was with China Postal Savings Bank, China s fifth largest bank. The other agreement was with Bank of East Asia, Hong Kong s largest local independent bank and the first foreign bank to launch a card program in China.

Introduced its market-leading CentreSuite product to Europe. The commercial card management tool was first launched in North America in 2002 and is now employed by more than 140,000 businesses.

Merchant

Responded to Bank of America s announcement on June 29, 2009 that Bank of America and other parties are forming a new joint venture that will provide merchant processing services. TSYS provides accounting, settlement, authorization and other services to Bank of America pursuant to a contract that will expire in April 2010. Bank of America has indicated to TSYS that it is in the process of formulating its plans with respect to changes in its merchant processing relationship with TSYS but has not yet communicated to TSYS the timing or extent of the deconversion from TSYS systems.

Announced availability of two new all-in-one point-of-sale (POS) solutions to help small- and mid-sized retailers integrate store operations with the point of purchase. Offered as a complete business-in-a-box, each solution includes quality hardware components and award winning Microsoft software to help retailers manage every aspect of their business.

Agreed to partner with mPay Gateway(TM) and Nova Libra to provide point-of-sale payment solutions that meet the needs of healthcare providers and their patients, as well as pharmacies and drug stores.

Financial Review

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

Critical Accounting Policies and Estimates

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

Factors that could affect the Company s future operating results and cause actual results to vary materially from expectations are set forth in the Company s forward-looking statements. 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. For a detailed discussion regarding the Company s risk factors, see Item 1A: Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

For a detailed discussion regarding the Company s critical accounting policies and estimates, see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. There have been no material changes to the Company s critical accounting policies, estimates and assumptions or the judgments affecting the application of those estimates and assumptions in 2009.

Related Party Transactions

The Company believes the terms and conditions of transactions between the Company and its equity investments, Total System Services de México, S.A. de. C.V. (TSYS de México) and CUP Data, are comparable to those which could have been obtained in

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transactions with unaffiliated parties. The Company s margins with respect to related party transactions are comparable to margins recognized in transactions with unrelated third parties.

Off-Balance Sheet Arrangements

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

Contractual Obligations: The total liability (with state amounts tax effected) for uncertain tax positions under FIN 48 at June 30, 2009 is $4.6 million. Refer to Note 10 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information on income taxes. The Company is not able to reasonably estimate the amount by which the liability will increase or decrease over time; however, at this time, the Company does not expect a significant payment related to these obligations within the next year.

As indicated in the Company s 2008 Annual Report on Form 10-K, total contractual cash obligations at December 31, 2008 were estimated at $458.0 million. These contractual cash obligations include lease payments and software arrangements.

Results of Operations

The following table sets forth certain income statement captions as a percentage of total revenues and the percentage increases or decreases in those items for the three months ended June 30, 2009 and 2008, respectively:

	% of Total Revenues		Percent Change in Dollar Amounts
	2009	2008	2009 vs. 2008
Revenues:			
Electronic payment processing services	**57.3%**	57.6%	(4.7)%
Merchant acquiring services	**16.9**	15.3	6.2
Other services	**10.9**	11.6	(9.8)
Revenues before reimbursable items	**85.1**	84.5	(3.4)
Reimbursable items	**14.9**	15.5	(8.0)
Total revenues	**100.0**	100.0	(4.1)
Expenses:			
Salaries and other personnel expenses	**36.0**	33.6	2.9
Net technology and facilities expenses	**17.7**	17.3	(1.7)
Spin-related expenses	**¾**	0.3	(100.0)
Other operating expenses	**11.3**	10.8	0.2
Expenses before reimbursable items	**65.0**	62.0	0.7
Reimbursable items	**14.9**	15.5	(8.0)
Total expenses	**79.9**	77.5	(1.1)
Operating income	**20.1**	22.5	(14.5)
Nonoperating expenses	**(0.6)**	(0.1)	nm
Income from continuing operations before income taxes and equity in income of equity investments	**19.5**	22.4	(16.5)
Income taxes	**7.1**	7.9	(14.0)

Income from continuing operations before equity in income of equity investments	**12.4**	14.5	(17.9)
Equity in income of equity investments	**0.4**	0.3	46.7
Income from continuing operations, net of tax	**12.8**	14.8	(16.8)
Income from discontinued operations, net of tax	**0.3**	0.1	nm
Net income	**13.1**	14.9	(15.3)
Net income attributable to the noncontrolling interests	**(0.1)**	(0.2)	(18.1)
Net income attributable to TSYS	**13.0%**	14.7%	(15.3)%

nm = not meaningful

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The following table sets forth certain income statement captions as a percentage of total revenues and the percentage increases or decreases in those items for the six months ended June 30, 2009 and 2008, respectively:

	% of Total Revenues		Percent Change in Dollar Amounts
	2009	2008	2009 vs. 2008
Revenues:			
Electronic payment processing services	**57.0%**	58.1%	(5.1)%
Merchant acquiring services	**16.5**	15.0	6.2
Other services	**11.3**	11.3	(2.9)
Revenues before reimbursable items	**84.8**	84.4	(2.8)
Reimbursable items	**15.2**	15.6	(6.4)
Total revenues	**100.0**	100.0	(3.4)
Expenses:			
Salaries and other personnel expenses	**35.7**	34.1	1.1
Net technology and facilities expenses	**17.9**	17.2	0.3
Spin-related expenses		1.0	(100.0)
Other operating expenses	**11.6**	10.5	7.2
Expenses before reimbursable items	**65.2**	62.8	0.4
Reimbursable items	**15.2**	15.7	(6.4)
Total expenses	**80.4**	78.5	(1.0)
Operating income	**19.6**	21.5	(12.1)
Nonoperating (expenses) income	**(0.5)**	0.1	nm
Income from continuing operations before income taxes and equity in income of equity investments	**19.1**	21.6	(14.5)
Income taxes	**6.9**	7.9	(15.3)
Income from continuing operations before equity in income of equity investments	**12.2**	13.7	(14.0)
Equity in income of equity investments	**0.3**	0.4	(18.4)
Income from continuing operations, net of tax	**12.5**	14.1	(14.1)
(Loss) income from discontinued operations, net of tax	**(0.3)**	0.1	nm
Net income	**12.2**	14.2	(16.3)
Net income attributable to the noncontrolling interests	**(0.1)**	(0.1)	4.0
Net income attributable to TSYS	**12.1%**	14.1%	(16.5)%

nm = not meaningful

Revenues

The Company generates revenues from the fees that it charges customers for providing transaction processing and other payment-related services. The Company s pricing for transactions and services is complex. Each category of revenue has numerous fee components depending on the types of transactions or services provided. TSYS reviews its pricing and implements pricing changes on an ongoing basis. In addition, standard pricing varies among its regional businesses, and such pricing can be customized further for customers through tiered pricing of various thresholds for volume activity. TSYS revenues are based upon transactional information accumulated by its systems or reported by its customers. The Company s revenue growth was moderated by currency translation impact of foreign operations, as well as doing business in a competitive landscape. Of the total revenue changes of 4.1% for the second quarter of 2009, the Company estimates revenues decreased by a net 4.6% due to foreign currency exposure and pricing, and increased 0.5% for volume changes. Of the total revenue changes of 3.4% for the first six months of 2009, the Company estimates revenues decreased by a net 5.5% due to foreign currency exposure and pricing, and increased 2.2% for volume changes.

Total revenues decreased $17.6 million and $28.5 million, or 4.1% and 3.4%, during the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. The decrease in revenues for the three and six months ended June 30, 2009 includes a decrease of $17.8 million and $40.4 million, respectively, related to the effects of currency translation of its foreign-based subsidiaries and branches. Excluding reimbursable items, revenues decreased $12.3 million and $20.0 million, or 3.4% and 2.8%, during the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008.

International Revenues

TSYS provides services to its clients worldwide and plans to continue to expand its service offerings internationally in the future.

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Total revenues from clients domiciled outside the United States for the three and six months ended June 30, 2009 and 2008 are summarized below:

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Europe	**$ 60.7**	68.3	(11.1)	**$ 118.5**	127.2	(6.8)
Canada	**33.5**	31.3	7.1	**64.1**	62.9	1.9
Japan	**11.1**	8.1	36.0	**22.2**	15.6	42.3
Mexico	**2.0**	4.0	(49.3)	**4.2**	7.7	(45.4)
Other	**7.3**	6.0	21.4	**14.0**	11.9	17.9
Totals	**$ 114.6**	117.7	(2.6)	**$ 223.0**	225.3	(1.0)

Note: The Company has two equity investments located in Mexico and China that are accounted for under the equity method of accounting, and therefore, TSYS does not include the revenues of its equity investments in consolidated revenues.

Revenues from clients in certain countries decreased as a result of pricing compression and portfolio deconversions.

TSYS expects to continue to grow its international revenues in the future through acquisitions, business expansion, new client signings and internal growth.

Value Added Products and Services

The Company s revenues are impacted by the use of optional value added products and services of TSYS processing systems. Value added products and services are optional features to which each client can choose to subscribe in order to potentially increase the financial performance of its portfolio. Value added products and services include: risk management tools and techniques, such as credit evaluation, fraud detection and prevention, and behavior analysis tools; revenue enhancement tools and customer retention programs; and data warehouse services. These revenues can increase or decrease from period to period as clients subscribe to or cancel these services. Value added products and services are included primarily in electronic payment processing services revenue. For the three months ended June 30, 2009 and 2008, value added products and services represented 11.9% and 12.8%, respectively, of total revenues. For the six months ended June 30, 2009 and 2008, value added products and services represented 11.8% and 12.5%, respectively, of total revenues.

Major Customers

A significant amount of the Company s revenues is derived from long-term contracts with large clients, including its major customers. TSYS derives revenues from providing various processing, merchant acquiring and other services to these clients, including processing of consumer and commercial accounts, as well as revenues for reimbursable items. Refer to Note 11 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information regarding major customers. The loss of these clients, or any significant client, could have a material adverse effect on the Company s financial position, results of operations and cash flows.

On June 29, 2009, Bank of America announced that it and other parties are forming a new joint venture that will provide merchant processing services. TSYS provides accounting, settlement, authorization and other services to Bank of America pursuant to a contract that will expire in April 2010, which services accounted for approximately 4.0% of TSYS total revenues for 2008 and approximately 4.8% of TSYS total revenues for the second quarter of 2009.

Bank of America has indicated to TSYS that it is in the process of formulating its plans with respect to changes in its merchant processing relationship with TSYS but has not yet communicated to TSYS the timing or extent of the deconversion from TSYS systems. TSYS provides a number of additional services to Bank of America, including commercial card processing, small business card processing and card production services.

Approximately 29% and 31% of the total revenues derived from providing merchant processing services to Bank of America are attributable to reimbursable items for 2008 and the second quarter of 2009, respectively.

TSYS will operate under the current contract until Bank of America informs TSYS of the changes to the merchant processing relationships. TSYS expects that the merchant processing business associated with Bank of America will contribute approximately $0.02 per share to TSYS projected earnings per share in 2009. The potential loss of Bank of America as a merchant processing client is not expected to have a material adverse effect on TSYS financial position, results of operations or cash flows.

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Revenues from major customers for the periods reported are primarily attributable to the North America Services segment and Merchant Services segment.

Accounts on File (AOF) Data

	At June 30,		Percent
(in millions)	**2009**	2008	Change
	349.5	372.9	(6.3)
Quarter-to-date (QTD) Average	**347.9**	371.6	(6.4)
Year-to-date (YTD) Average	**348.9**	370.9	(5.9)

AOF by Portfolio Type

	At June 30,				
	2009		2008		Percent
(in millions)	**AOF**	**%**	AOF	%	Change
Consumer	**191.2**	**54.7**	211.9	56.8	(9.8)
Retail	**51.7**	**14.8**	58.6	15.7	(11.6)
Stored value	**34.4**	**9.9**	31.2	8.4	10.1
Commercial	**44.4**	**12.7**	41.7	11.2	6.4
Government services	**22.4**	**6.4**	24.5	6.6	(8.6)
Debit	**5.4**	**1.5**	5.0	1.3	7.7
Total	**349.5**	**100.0**	372.9	100.0	(6.3)

AOF by Geographic Area

	At June 30,				
	2009		2008		Percent
(in millions)	**AOF**	**%**	AOF	%	Change
U.S.	**261.2**	**74.7**	289.0	77.5	(9.6)
Outside U.S.	**88.3**	**25.3**	83.9	22.5	5.2
Total	**349.5**	**100.0**	372.9	100.0	(6.3)

Note: The accounts on file distinction between U.S. and outside U.S. is based on the geographic domicile of the Company s processing clients.

Activity in AOF

(in millions)	**June 2008 to June 2009**	June 2007 to June 2008
Beginning balance	**372.9**	439.2
Internal growth of existing clients	**30.6**	39.5
New clients	**23.1**	30.1
Purges/Sales	**(37.0)**	(13.3)
Deconversions	**(40.1)**	(122.6)
Ending balance	**349.5**	372.9

Electronic Payment Processing Services

Electronic payment processing services revenues are generated primarily from charges based on the number of accounts on file, transactions and authorizations processed, statements mailed, cards embossed and mailed, and other processing services for cardholder accounts on file. Cardholder accounts on file include active and inactive consumer credit, retail, debit, stored value, government services and commercial card accounts. Revenues from electronic payment processing services decreased $11.5 million and $25.1 million, or 4.7% and 5.1%, for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. The decrease for the three and six months is attributable to negative foreign currency translation, the loss of clients through portfolio deconversions, as well as overall economic conditions causing existing clients to be selective in the services being utilized, partially offset by new clients.

TSYS electronic payment processing revenues are influenced by several factors, including volumes related to AOF and transactions. TSYS estimates that approximately 49% of total electronic payment processing revenues is AOF and transaction volume driven primarily processing services. The remaining 51% of electronic payment processing revenues are not AOF and transaction volume driven, and are derived from production and optional services TSYS considers to be value added products and services, custom programming and licensing arrangements.

Active accounts are accounts that have had monetary activity either during the current month or in the past 90 days based on contractual definition. Inactive accounts are accounts that have not had a monetary transaction (purchase, payment, etc.) in the past 90 days. The more active an account is, the more revenue generated for TSYS (items such as transaction and authorizations processed, and statements billed).

Occasionally a client will purge inactive accounts from its portfolio. An inactive account typically will only generate an AOF charge. A processing client will periodically review its cardholder portfolio based upon activity and usage. Each client, based upon criteria individually set by the client, will flag an account to be purged from TSYS system and deactivated.

A deconversion involves a client migrating all of its accounts to an in-house solution or another processor. Account deconversions include active and inactive accounts and can impact the Company s revenues significantly more than an account purge.

A sale of a portfolio involves a client typically selling a portion of its accounts to another party. A sale of a portfolio and a deconversion impact the Company s financial statements in a similar fashion, although a sale usually has a smaller financial impact due to the number of accounts typically involved.

Merchant Acquiring Services

Merchant acquiring services revenues are derived from providing processing services, acquiring solutions, related systems and integrated support services to financial institutions and other merchant acquirers. Revenues from merchant acquiring services include processing all payment forms including credit, debit, prepaid, electronic benefit transfer and electronic check for merchants of all sizes across a wide array of retail market segments. Merchant acquiring services include authorization and capture of transactions; clearing and settlement of transactions; information reporting services related to transactions; merchant billing services; and point-of-sale equipment sales and service. Merchant acquiring services revenues also include revenues derived from Infonox, a Silicon Valley-based technology firm acquired in November 2008. Infonox extends our payment capabilities and brings innovative, cutting-edge technology to the payments marketplace by enhancements with mobile, virtual terminal, ATM, BillPay and self-service kiosk solutions among others.

Revenues from merchant acquiring services are mainly generated by TSYS wholly owned subsidiary TSYS Acquiring Solutions, L.L.C. (TSYS Acquiring) and majority owned subsidiary GP Network Corporation. Merchant acquiring services revenues for the three and six months ended June 30, 2009 was $69.7 million and $135.2 million, respectively, compared to $65.6 million and $127.3 million for the same periods last year. Approximately $2.0 million of the change in merchant acquiring revenues in the second quarter of 2009 compared to the second quarter of 2008 was the result of new business and $2.1 million was the result of an acquisition. Approximately $3.0 million of the change in merchant acquiring revenues in the first six months of 2009 compared to the same period last year was the result of new business and $3.9 million was the result of an acquisition.

TSYS Acquiring s results are driven by the authorization and capture transactions processed at the point-of-sale and clearing and settlement transactions. TSYS Acquiring s authorization and capture transactions are primarily through dial-up or Internet connectivity.

TSYS Acquiring also expanded its offerings during 2008 to include the Infonox solution set, a host of new point-of-sale terminals and software applications including solutions for the health care industry, PCI scanning and assessment services. These offerings complement the existing enhanced Dynamic Currency Conversion and multi-currency processing services, Spanish language telephone processing, improved Internet-based research and portfolio reporting capabilities and new Merchant Boarding and Maintenance capabilities.

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Other Services

Revenues from other services consist primarily of revenues generated by TSYS wholly owned subsidiaries not included in electronic payment processing services or merchant acquiring services, as well as TSYS business process management services. Revenues from other services decreased $4.9 million, or 9.8%, and $2.8 million, or 2.9%, for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. Approximately $4.2 million of the change in the second quarter of 2009 compared to the second quarter of 2008 other services revenues was the result of currency translation. Approximately $2.8 million of the change for the first six months of 2009 compared to the same period last year in other services revenues was the result of call center business being taken in-house by a client.

Reimbursable Items

As a result of the FASB s Emerging Issues Task Force No. 01-14 (EITF No. 01-14), *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*, the Company has included reimbursements received for out-of-pocket expenses as revenues and expenses. Reimbursable items decreased $5.3 million, or 8.0%, and $8.5 million, or 6.4%, for the three and six months ended June 30, 2009, respectively, compared to the same periods last year due to negative currency translation and less postage as a result of client portfolio deconversions.

The majority of reimbursable items relates to the Company s domestic-based clients and is primarily costs associated with postage. The Company s reimbursable items are impacted with changes in postal rates and changes in the volumes of all mailing activities by its clients. On May 11, 2009, the U.S. Postage Service increased the price of a first-class stamp $0.02 to $0.44. On May 12, 2008, the U.S. Postage Service increased the price of a first-class stamp $0.01 to $0.42.

Operating Expenses

Total expenses decreased 1.1% and 1.0% for the three and six months ended June 30, 2009 compared to the same periods in 2008. The fluctuation in expense includes a decrease of $14.8 million and $34.2 million for the three and six months ended June 30, 2009, respectively, related to the effects of currency translation of its foreign-based subsidiaries, branches and divisions. Excluding reimbursable items, total expenses increased 0.7% and 0.4% for the three and six months ended June 30, 2009 compared to the same periods in 2008. The fluctuation in operating expenses is attributable to changes in each of the expense categories as described below.

Salaries and Other Personnel Expenses

Summarized below are the major components of salaries and other personnel expenses:

	Three months ended June 30,			**Six months ended June 30,**		
(in thousands)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Salaries	**$ 113,000**	110,174	2.6%	**$ 224,398**	214,264	4.7%
Employee benefits	**26,117**	19,728	32.4	**50,228**	48,772	3.0
Nonemployee wages	**12,420**	16,564	(25.0)	**24,670**	30,302	(18.6)
Share-based compensation	**3,965**	5,967	(33.5)	**9,233**	9,682	(4.6)
Other	**3,492**	3,297	5.9	**5,866**	6,797	(13.7)
Less capitalized expenses	**(10,485)**	(11,426)	(8.2)	**(21,544)**	(20,288)	6.2
Total	**$ 148,509**	144,304	2.9%	**$ 292,851**	289,529	1.1%

Salaries and other personnel expenses increased $4.2 million, or 2.9%, and $3.3 million, or 1.1%, for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. The change in salaries and other personnel expenses is associated with the normal salary increases and related benefits, offset by the higher level of employment costs capitalized as software development and contract acquisition costs. Salaries and other personnel expenses include the accrual for performance-based incentive benefits, which includes bonuses, profit sharing and employer 401(k) expenses. For the three months ended June 30, 2008, the Company accrued $200,000 for performance-based incentives. For the six months ended June 30, 2008, the Company accrued $4.7 million for performance-based incentives.

Prior to the spin-off by Synovus Financial Corp. (Synovus) to its shareholders of all the shares of TSYS held by Synovus, Synovus provided certain administrative services, such as human resources, legal, security and tax preparation and compliance, to TSYS in exchange for a management fee, which is included in other operating expenses, to cover TSYS pro rata share of services. With the spin-off, TSYS began recruiting employees and assumed these functions during 2008. During the 2008 transition period, TSYS continued to utilize Synovus administrative services until these functions were operational within TSYS in exchange for an adjusted management fee based on utilization. As it assumed these functions, salaries and other personnel expenses increased, while other operating expenses decreased. TSYS headcount increased by approximately 60 people as these administrative services transitioned to TSYS.

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Capitalized salaries and personnel expenses decreased $941,000 and increased $1.3 million for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008, as a result of increased client conversion and implementation activity in the International Services segment.

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

Employee Data:

(FTE)	**2009**	2008	Percent Change
At June 30,	**8,001**	7,582	5.5%
QTD Average	**8,040**	7,572	6.2
YTD Average	**8,048**	7,388	8.9

The majority of the increase in the number of employees in 2009 as compared to 2008 is a result of the expansion of TSYS international business.

Share-based compensation expenses include the impact of expensing the fair value of stock options, as well as expenses associated with nonvested shares. For the three months ended June 30, 2009, share-based compensation was $4.0 million, compared to $6.0 million for the same period in 2008. For the six months ended June 30, 2009, share-based compensation was $9.2 million, compared to $9.7 million for the same period in 2008.

Net Technology and Facilities Expenses

Summarized below are the major components of net technology and facilities expenses:

	Three months ended June 30,			**Six months ended June 30,**		
(in thousands)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Depreciation and amortization	**$ 27,405**	29,040	(5.6)%	**$ 53,818**	57,475	(6.4)%
Equipment and software rentals	**20,920**	21,125	(1.0)	**43,149**	41,604	3.7
Repairs and maintenance	**13,854**	12,725	8.9	**27,760**	25,659	8.2
Other	**10,756**	11,335	(5.1)	**22,194**	21,743	2.1
Total	**$ 72,935**	74,225	(1.7)%	**$ 146,921**	146,481	0.3%

Net technology and facilities expenses decreased $1.3 million, or 1.7%, and increased $0.4 million, or 0.3%, for the three and six months ended June 30, 2009, respectively, over the same periods in 2008.

Repairs and maintenance increased for the three and six months ended June 30, 2009, as compared to the same periods in 2008, as a result of support for additional software licenses and equipment.

Spin-Related Expenses

Spin-related expenses consist of expenses associated with the separation from Synovus. In July 2007, Synovus Board of Directors appointed a special committee of independent directors to make a recommendation with respect to whether to distribute Synovus ownership interest in TSYS to Synovus shareholders. As a result, the TSYS Board of Directors formed a special committee of independent TSYS directors to consider the terms of any proposed spin-off by Synovus of its ownership interest in TSYS, including the size of the pre-spin cash dividend. TSYS incurred expenses associated with advisory and legal services in connection with the spin assessment. As the spin-off was finalized and completed, TSYS also incurred expenses for the incremental fair value associated with converting Synovus stock options held by TSYS employees to TSYS options.

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Other Operating Expenses

Summarized below are the major components of other operating expenses:

	Three months ended June 30,			Six months ended June 30,		
(in thousands)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Third-party data processing services	**$ 12,607**	10,879	15.9%	**$ 23,741**	21,004	13.0%
Travel and business development	**5,975**	6,724	(11.1)	**11,859**	13,972	(15.1)
Supplies and stationery	**4,081**	5,947	(31.4)	**10,056**	11,284	(10.9)
Professional advisory services	**2,144**	7,192	(70.2)	**9,667**	10,529	(8.2)
Amortization of conversion costs	**4,184**	3,209	30.4	**8,203**	6,667	23.0
Amortization of acquisition intangibles	**851**	673	26.5	**1,675**	1,332	25.8
Service level quality expenses	**(23)**	(806)	(97.2)	**1,514**	(562)	nm
Bad debt (recoveries) expense	**235**	304	(22.5)	**416**	(1,275)	(132.6)
Management fees	**37**	37	0.4	**74**	72	1.7
Other	**16,407**	12,264	33.8	**28,297**	26,059	8.6
Total	**$ 46,498**	46,423	0.2%	**$ 95,502**	89,082	7.2%

nm = not meaningful

Other operating expenses include, among other things, amortization of conversion costs, costs associated with delivering merchant services, and professional advisory fees. Other operating expenses also include charges for service level quality expenses, contractual commitments and bad debt expense. As described in the Critical Accounting Policies section set forth in Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2008 Form 10-K, management s evaluation of the adequacy of its transaction processing reserves and allowance for doubtful accounts is based on a formal analysis which assesses the probability of losses related to contractual contingencies, processing errors and uncollectible accounts. Increases and decreases in transaction processing provisions and charges for bad debt expense are reflected in other operating expenses.

Other operating expenses for the three and six months ended June 30, 2009 increased $75,000, or 0.2%, and $6.4 million, or 7.2%, respectively, as compared to the same periods in 2008. The increase in operating expenses is primarily the result of the use of more professional advisory services, increased service level quality expenses and a recovery of a bad debt expense in 2008. The increase in the amount of service level quality expenses is associated with changes in estimates for processing errors and contractual contingencies.

Operating Income

Operating income decreased 14.5% and 12.1% for the three and six months ended June 30, 2009, respectively, over the same periods in 2008. The Company s operating profit margin for the three and six months ended June 30, 2009 was 20.1% and 19.6%, respectively, compared to 22.5% and 21.5% for the same periods last year. TSYS operating margin decreased for the three and six months ended June 30, 2009, as compared to the same periods in 2008, as the result of the loss of revenues associated with deconverted portfolios.

Nonoperating Income (Expense)

Interest income for the three months ended June 30, 2009 was $0.5 million, a decrease of $1.2 million, compared to $1.7 million for the same period in 2008. Interest income for the six months ended June 30, 2009 was $1.2 million, a decrease of $3.0 million, compared to $4.2 million for the same period in 2008. The decrease in interest income is primarily attributable to the decline in interest rates.

Interest expense for the three months ended June 30, 2009 was $1.1 million, a decrease of $1.8 million compared to $2.9 million for the same period in 2008. Interest expense for the six months ended June 30, 2009 was $2.2 million, a decrease of $4.0 million compared to $6.2 million for the same period in 2008. The decrease in interest expense in 2009 compared to 2008 relates to the decline in interest rates.

For the three months ended June 30, 2009 and 2008, the Company recorded a translation loss of approximately $3.1 million and a translation gain of approximately $198,000, respectively, related to intercompany loans and foreign denominated balance sheet accounts. For the six months ended June 30, 2009 and 2008, the Company recorded a translation loss of approximately $4.0 million and a translation gain of approximately $2.1 million, respectively, related to intercompany loans and foreign denominated balance sheet accounts.

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Occasionally, the Company will provide financing to its subsidiaries in the form of an intercompany loan, which is required to be repaid in U.S. dollars. For its subsidiaries whose functional currency is something other than the U.S. dollar, the translated balance of the financing (liability) is adjusted upward or downward to match the U.S.-dollar obligation (receivable) on the Company s financial statements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation.

The Company records foreign currency translation adjustments on foreign-denominated balance sheet accounts. The Company maintains several cash accounts denominated in foreign currencies, primarily in Euros and British Pounds Sterling. As the Company translates the foreign-denominated cash balances into U.S. dollars, the translated cash balance is adjusted upward or downward depending upon the foreign currency exchange movements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation in the Company s statements of income. As those cash accounts have increased, the upward or downward adjustments have increased. The Company recorded a net translation loss of approximately $3.1 million and $4.0 million for the three and six months ended June 30, 2009, respectively, related to the translation of foreign denominated balance sheet accounts, most of which were cash.

The balance of the Company s foreign-denominated cash accounts subject to risk of translation gains or losses at June 30, 2009 was approximately $12.7 million, the majority of which is denominated in Euros.

Income Taxes

TSYS effective income tax rate for the three months ended June 30, 2009 was 35.9%, compared to 35.1% for the same period in 2008. TSYS effective income tax rate for the six months ended June 30, 2009 was 35.8%, compared to 36.0% for the same period in 2008. The calculation of the effective tax rate is income taxes plus income taxes associated with equity income divided by TSYS pretax income adjusted for minority interests in consolidated subsidiaries net income and pre-tax equity earnings of its equity investments. Refer to Note 10 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information on income taxes.

In the normal course of business, TSYS is subject to examinations from various tax authorities. These examinations may alter the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions.

TSYS continually monitors and evaluates the potential impact of current events and circumstances on the estimates and assumptions used in the analysis of its income tax positions, and, accordingly, TSYS effective tax rate may fluctuate in the future.

Equity in Income of Equity Investments

The Company has two equity investments located in Mexico and China that are accounted for under the equity method of accounting. TSYS share of income from its equity in equity investments was $1.6 million and $1.1 million for the three months ended June 30, 2009 and 2008, respectively. TSYS share of income from its equity in equity investments was $2.7 million and $3.3 million for the six months ended June 30, 2009 and 2008, respectively.

(Loss)/Income from Discontinued Operations, net of tax

Income from discontinued operations, net of tax for the three months ended June 30, 2009 increased $0.9 million compared to the same period in 2008. Loss from discontinued operations, net of tax for the six months ended June 30, 2009 increased $2.7 million compared to the same period in 2008 mainly as the result of a one-time expense related to resolution of a client issue at TDM.

Net Income Attributable to TSYS

Net income attributable to TSYS for the three months ended June 30, 2009 decreased 15.3%, or $9.6 million, to $53.5 million, or basic and diluted earnings per share of $0.27, compared to $63.1 million, or basic and diluted earnings per share of $0.32, for the same period in 2008. Net income attributable to TSYS for the six months ended June 30, 2009 decreased 16.5%, or $19.7 million, to $100.0 million, or basic and diluted earnings per share of $0.51, compared to $119.7 million, or basic and diluted earnings per share of $0.60, for the same period in 2008.

Net Profit Margin

The Company s net profit margin for the three months ended June 30, 2009 was 13.0%, compared to 14.7% for the same period last year. The Company s net profit margin for the six months ended June 30, 2009 was 12.2%, compared to 14.1% for the same period last year. TSYS profit margin is impacted by the consolidation of majority-owned subsidiaries. The Company recognizes only its share of net profits from these entities, while consolidating all their revenues, which has the impact of lowering overall net profit margins. TSYS net profit margin decreased for the quarter as the result of increased interest expense due to long-term debt and the loss of revenues associated with deconverted portfolios.

Operating Segments

North America Services

North America Services segment provides electronic payment processing and related services to clients primarily based in North America. This segment has two major customers.

Below is a summary of the North America Services segment:

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Total revenues	**$ 256.2**	275.7	(7.1)%	**$ 517.1**	555.3	(6.9)%
Operating income	**58.2**	68.3	(14.8)	**116.2**	138.7	(16.2)
AOF	**311.7**	340.8	(8.5)	**311.7**	340.8	(8.5)
Transactions	**1,522.3**	1,686.7	(9.7)	**3,003.3**	3,276.3	(8.3)

The decline in total segment revenues for the three and six months ended June 30, 2009, as compared to the same periods in 2008, is the result of a decrease in revenues associated with client portfolio deconversions, as well as overall economic conditions causing existing clients to be selective in the services being utilized.

International Services

International Services segment provides electronic payment processing and related services to clients primarily based outside the North America region. This segment has one major customer.

Below is a summary of the International Services segment:

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Total revenues	**$ 75.8**	79.6	(4.7)%	**$148.8**	149.0	(0.2)%
Operating income	**9.2**	11.7	(21.5)	**15.2**	19.2	(20.7)
AOF	**37.8**	32.1	17.5	**37.8**	32.1	17.5
Transactions	**271.2**	264.5	2.5	**519.1**	481.9	7.7

The increase in total segment revenues for the three and six months ended June 30, 2009, as compared to the same periods in 2008, is the result of revenues associated with new clients as a result of portfolio conversions, partially offset by negative foreign currency translation and overall economic conditions causing existing clients to be selective in the services being utilized.

Merchant Services

Merchant Services segment provides merchant processing and related services to clients primarily based in the United States. This segment has one major customer.

Below is a summary of the Merchant Services segment:

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Percent Change	**2009**	2008	Percent Change
Total revenues	**$ 80.0**	74.3	7.6%	**$ 155.1**	145.1	6.9%
Operating income	**15.4**	18.1	(14.9)	**29.5**	33.2	(11.2)
Point-of-sale transactions	**1,313.0**	1,307.2	0.4	**2,539.1**	2,525.2	0.6

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The increase in total segment revenues is the result of the acquisition of Infonox, a new client and increase in processing volumes.

Refer to the discussion of Bank of America under Major Customers.

Non-GAAP Financial Measures

The non-generally accepted accounting principles (GAAP) financial measure of reimbursable items presented by TSYS is utilized by management to better understand and assess TSYS operating results and financial performance. Management evaluates the Company s operating performance based upon operating and net profit margins excluding reimbursable items, a non-GAAP measure. TSYS also uses this non-GAAP financial measure to evaluate and assess TSYS financial performance against budget. TSYS believes that this non-GAAP financial measure is important to enable investors to understand and evaluate its ongoing operating results.

TSYS believes that this non-GAAP financial measure is a representative measure of comparative financial performance that reflect the economic substance of TSYS current and ongoing business operations. Although non-GAAP financial measures are often used to measure TSYS operating results and assess its financial performance, they are not necessarily comparable to similarly titled captions of other companies due to potential inconsistencies in the method of calculation.

TSYS believes that its use of this non-GAAP financial measure provides investors with the same key financial performance indicators that are utilized by management to assess TSYS operating results, to evaluate the business and to make operational decisions on a prospective, going-forward basis. Hence, management provides disclosure of non-GAAP financial measures in order to allow shareholders and potential investors an opportunity to see TSYS as viewed by management, assess TSYS with some of the same tools that management utilizes internally and compare such information with prior periods.

Profit Margins and Reimbursable Items

Management believes that operating and net profit margins excluding reimbursable items are more useful because reimbursable items do not impact profitability as the Company receives reimbursement for expenses incurred on behalf of its clients. TSYS believes that the presentation of GAAP financial measures alone would not provide its shareholders and investors with the ability to appropriately analyze its ongoing operational results, and therefore expected future results. TSYS therefore believes that inclusion of this non-GAAP financial measure provides investors with more information to help them better understand its financial statements just as management utilizes these non-GAAP financial measures to better understand the business, manage its budget and allocate its resources.

Below is the reconciliation between reported margins and adjusted margins excluding reimbursable items for the three and six months ended June 30, 2009 and 2008, respectively:

	Three months ended June 30,		**Six months ended June 30,**	
(in thousands)	**2009**	2008	**2009**	2008
Operating income	**$ 82,779**	96,848	**$ 160,894**	182,943
Net income attributable to TSYS	**$ 53,447**	63,084	**$ 99,973**	119,698
Total revenues	**$ 411,993**	429,630	**$ 820,927**	849,455
Operating margin (as reported)	**20.1%**	22.5%	**19.6%**	21.5%
Net profit margin (as reported)	**13.0%**	14.7%	**12.2%**	14.1%
Revenue before reimbursable items	**$ 350,721**	363,055	**$ 696,168**	716,185
Adjusted operating margin	**23.6%**	26.7%	**23.1%**	25.5%

Adjusted net profit margin	**15.2%**	17.4%	**14.4%**	16.7%

Projected Outlook for 2009

TSYS expects its 2009 revenues to decline by 5%-3% as compared to 2008 and expects its 2009 net income to decline by 13%-11% as compared to 2008, based on the following assumptions: (1) the sale of TDM will close in the third quarter; (2) there will be no significant movements in LIBOR and TSYS will not make any significant draws on the remaining balance of the revolving credit facility; (3) anticipated levels in employment, technology and other expenses will be accomplished; (4) there will be no significant movement in foreign currency exchange rates related to TSYS business subsequent to June 30, 2009; (5) TSYS will not incur significant expenses associated with the conversion of new large clients or acquisitions, other than those already identified, or any significant impairment of goodwill or other intangibles; and (6) there will be no significant portfolio deconversions other than as previously announced.

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Financial Position, Liquidity and Capital Resources

The Condensed Consolidated Statements of Cash Flows detail the Company s cash flows from operating, investing and financing activities. TSYS primary method of funding its operations and growth has been cash generated from current operations and the use of leases. TSYS has occasionally used borrowed funds to supplement financing of capital expenditures, acquisitions and most recently the spin-off.

Cash Flows From Operating Activities

	Six months ended June 30,	
(in thousands)	**2009**	2008
Net income attributable to TSYS	**$ 99,973**	119,698
Depreciation and amortization	**77,967**	79,755
Dividends from equity investments	**4,718**	3,248
Other noncash items and charges, net	**9,745**	5,009
Net change in current and long-term assets and current and long-term liabilities	**26,692**	(33,238)
Net cash provided by operating activities	**$ 219,095**	174,472

TSYS main source of funds is derived from operating activities, specifically net income. During the six months ended June 30, 2009, the Company generated $219.1 million in cash from operating activities compared with $174.5 million for the same period last year. The increase in 2009 in net cash provided by operating activities was primarily the result of the net change in current and long-term assets and current and long-term liabilities.

Net change in current and long-term assets and current and long-term liabilities include accounts receivable, prepaid expenses, other current assets and other assets, accounts payable, accrued salaries and employee benefits, other current liabilities and other liabilities. The change in accounts receivable at June 30, 2009, as compared to December 31, 2008, is the result of timing of collections compared to billings. The change in accounts payable and other liabilities for the same period is the result of the timing of payments, funding of performance-based incentives and payments of vendor invoices.

Cash Flows From Investing Activities

	Six months ended June 30,	
(in thousands)	**2009**	2008
Purchases of property and equipment, net	**$ (13,784)**	(26,296)
Additions to licensed computer software from vendors	**(12,709)**	(8,598)
Additions to internally developed computer software	**(12,918)**	(8,332)
Cash used in acquisitions, net of cash acquired	**(293)**	
Additions to contract acquisition costs	**(17,105)**	(28,417)
Net cash used in investing activities	**$ (56,809)**	(71,643)

The major uses of cash for investing activities have been the addition of property and equipment, primarily computer equipment, the purchase of licensed computer software and internal development of computer software, investments in contract acquisition costs associated with obtaining and servicing new or existing clients, and business acquisitions. The Company used $56.8 million in cash for investing activities for the six months ended June 30, 2009, compared to $71.6 million for the same period in 2008. The major uses of cash for investing activities in 2009 was for the additions to contract acquisition costs, equipment, licensed computer software from vendors and internally developed computer software. The major uses of cash for investing activities in 2008 was for the additions of equipment and contract acquisition costs.

Contract Acquisition Costs

TSYS makes cash payments for processing rights, third-party development costs and other direct salary-related costs in connection with converting new customers to the Company s processing systems. The Company s investments in contract acquisition costs were $6.1 million for the three months ended June 30, 2009, bringing the total for 2009 to $17.1 million compared to $28.4 million for the six months ended June 30, 2008.

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The Company had cash payments for processing rights of approximately $2.7 million during the six months ended June 30, 2009, compared to $5.4 million and $12.4 million for the three and six months last year, respectively.

Conversion cost additions were $14.4 million and $16.0 million for the six months ended June 30, 2009 and 2008, respectively. The decrease in the amount of conversion cost additions for 2009, as compared to 2008, is the result of the timing of conversion activity in 2009 versus 2008.

Cash Flows From Financing Activities

	Six months ended June 30,	
(in thousands)	**2009**	2008
Dividends paid on common stock	**$ (27,595)**	(27,768)
Proceeds from borrowings of long-term debt	**5,334**	2,506
Repurchase of common stock	**(329)**	(23,594)
Principal payments on long-term debt borrowings and capital lease obligations	**(9,786)**	(6,870)
Other	**(227)**	91
Net cash used in financing activities	**$ (32,603)**	(55,635)

The major use of cash for financing activities has been the payment of dividends and repurchase of common stock. The main source of cash from financing activities has been the occasional use of borrowed funds and the exercise of stock options. Net cash used in financing activities for the six months ended June 30, 2009 was $32.6 million mainly as a result of the payment of dividends. Net cash used in financing activities for the six months ended June 30, 2008 was $55.6 million mainly as a result of the payment of dividends and the repurchase of common stock.

Borrowings

On October 31, 2008, the Company s International Services segment obtained a credit agreement from a third-party to borrow up to approximately ¥2.0 billion, or $21 million, in a Yen-denominated three year loan to finance activities in Japan. The rate is LIBOR plus 80 basis points. The Company initially made a draw down of ¥1.5 billion, or approximately $15.1 million. In January 2009, the Company made an additional draw down of ¥250 million, or approximately $2.8 million. In April 2009, the Company made an additional draw down of ¥250 million, or approximately $2.5 million.

Stock Repurchase Plan

On April 20, 2006, TSYS announced that its Board had approved a stock repurchase plan to purchase up to 2 million shares, which at the time represented slightly more than five percent of the shares of TSYS stock held by shareholders other than Synovus. The shares were to be purchased from time to time over a two year period and would depend on various factors including price, market conditions, acquisitions and the general financial position of TSYS. Repurchased shares are to be used for general corporate purposes.

With the completion of the spin-off, the TSYS Board of Directors extended to April 2010 TSYS current share repurchase program that was set to expire in April 2008 and increased the number of shares that may be repurchased under the plan from 2 million to 10 million.

The Company has approximately 6,928,000 shares remaining that could be repurchased under the stock repurchase plan.

Dividends

Dividends on common stock of $13.8 million were paid during the three months ended June 30, 2009, bringing the total for 2009 to $27.6 million compared to $27.8 million paid during the six months ended June 30, 2008.

Significant Noncash Transactions

Refer to Note 12 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information about supplementary cash flow information.

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Foreign Exchange

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

Impact of Inflation

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

Working Capital

TSYS may seek additional external sources of capital in the future. The form of any such financing will vary depending upon prevailing market and other conditions and may include short-term or long-term borrowings from financial institutions or the issuance of additional equity and/or debt securities such as industrial revenue bonds. However, there can be no assurance that funds will be available on terms acceptable to TSYS. Management expects that TSYS will continue to be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future, as evidenced by TSYS current ratio of 3.1:1. At June 30, 2009, TSYS had working capital of $482.4 million compared to $395.5 million at December 31, 2008.

Legal Proceedings

The Company is subject to various legal proceedings and claims and is also subject to information requests, inquiries and investigations arising out of the ordinary conduct of its business. In the opinion of management, based in part upon the advice of legal counsel, all matters are believed to be adequately covered by insurance, or if not covered, are believed to be without merit or are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that TSYS determines to be both probable and reasonably estimable in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies.*

Recent Accounting Pronouncements

The Company s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the SEC, contains a discussion of recent accounting pronouncements and the expected impact on the Company s financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162.* The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the impact of adopting SFAS No. 168 on its financial position, results of operations and cash flows to be material.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R),* which requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. SFAS No. 167 shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company does not expect the impact of adopting SFAS No. 167 on its financial position, results of operations and cash flows to be material.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events,* which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements ; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. The impact of adopting SFAS No. 165 was not material to the Company s financial position, results of operations and cash flows.

In November 2008, the FASB issued EITF No. 08-6, *Equity Method Investment Accounting Considerations.* The guidance in EITF 08-6 applies to all investments accounted for under the equity method and clarifies the accounting for certain transactions and impairment considerations involving those investments. EITF 08-6 is effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company does not expect the impact of adopting 08-6 on its financial position, results of operations and cash flows to be material.

Forward-Looking Statements

Certain statements contained in this filing which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). These forward-looking statements include, among others: (i) TSYS plans to continue to expand its service offerings internationally and expectation that international revenues will continue to grow; (ii) the expected contribution of Bank of America s merchant processing business to TSYS projected earnings per share for 2009; (iii) TSYS expectation that the loss of Bank of America s merchant processing business will not have a material adverse affect on TSYS; (iv) TSYS expectation that it will be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future; (v) TSYS expected decline in revenues and net income for 2009; (vi) TSYS belief with respect to lawsuits, claims and other complaints; and (vii) TSYS expectation with respect to certain tax matters; and the assumptions underlying such statements, including, with respect to TSYS expected decline in net income for 2009: (a) the sale of TDM will close in the third quarter; (b) there will be no significant movements in LIBOR and TSYS will not make any significant draws on its revolving credit facility; (c) there will be no significant movement in foreign currency exchange rates related to TSYS business subsequent to June 30, 2009; (d) anticipated levels in employment, technology and other expenses will be accomplished; (e) TSYS will not incur significant expenses associated with the conversion of new large clients and/or acquisitions, other than as previously identified, or any significant impairment of goodwill or other intangibles; and (f) there will be no significant portfolio deconversions during the year other than as previously identified. 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, estima projects, plans, may, could, should, would, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying these statements.

These statements are based upon the current beliefs and expectations of TSYS management and are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements. A number of important factors could cause actual results to differ materially from those contemplated by our forward looking statements. Many of these factors are beyond TSYS ability to control or predict. These factors include, but are not limited to:

expenses associated with the spin-off are higher than expected;

movements in LIBOR are greater than expected and draws on the revolving credit facility are greater than expected;

TSYS incurs expenses associated with the signing of a significant client;

internal growth rates for TSYS existing clients are lower than anticipated whether as a result of unemployment rates, card delinquencies and charge off rates or otherwise;

TSYS does not convert and deconvert clients portfolios as scheduled;

adverse developments with respect to foreign currency exchange rates;

adverse developments with respect to entering into contracts with new clients and retaining current clients;

continued consolidation and turmoil in the financial services industry, including the merger of TSYS clients with entities that are not TSYS processing clients, the sale of portfolios by TSYS clients to entities that are not TSYS processing clients and the seizure by federal banking regulators of TSYS clients;

TSYS is unable to control expenses and increase market share, both domestically and internationally;

adverse developments with respect to the credit card industry in general, including a decline in the use of cards as a payment mechanism;

TSYS is unable to successfully manage any impact from slowing economic conditions or consumer spending;

the impact of potential and completed acquisitions, including the costs associated therewith and their being more difficult to integrate than anticipated;

the costs and effects of litigation, investigations or similar matters or adverse facts and developments relating thereto;

the impact of the application of and/or changes in accounting principles;

TSYS inability to timely, successfully and cost-effectively improve and implement processing systems to provide new products, increased functionality and increased efficiencies;

TSYS inability to anticipate and respond to technological changes, particularly with respect to e-commerce;

changes occur in laws, regulations, credit card associations rules or other industry standards affecting TSYS business which require significant product redevelopment efforts or reduce the market for or value of our products;

successfully managing the potential both for patent protection and patent liability in the context of rapidly developing legal framework for expansive patent protection;

the material breach of security of any of our systems;

overall market conditions;

the loss of a major supplier;

the impact on TSYS business, as well as on the risks set forth above, of various domestic or international military or terrorist activities or conflicts;

the sale of TDM does not take place as expected;

other risk factors described in the Risk Factors and other sections of TSYS Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and other filings with the Securities and Exchange Commission; and

TSYS ability to manage the foregoing and other risks.

These forward-looking statements speak only as of the date on which they are made and TSYS does not intend to update any forward-looking statement as a result of new information, future developments or otherwise.

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TOTAL SYSTEM SERVICES, INC.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

The Company is exposed to foreign exchange risk because it has assets, liabilities, revenues and expenses denominated in foreign currencies other than the U.S. dollar. These currencies are translated into U.S. dollars at current exchange rates, except for revenues, costs and expenses and net income, which are translated at the average exchange rate for each reporting period. Net exchange gains or losses resulting from the translation of assets and liabilities of foreign operations, net of tax, are accumulated in a separate section of shareholders equity entitled accumulated other comprehensive income, net. The following represents the amount of other comprehensive (loss) gain for the three and six months ended June 30, 2009 and 2008, respectively:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Other comprehensive gain	**$ 18.4**	0.4	**$ 14.6**	4.8

Currently, the Company does not use financial instruments to hedge exposure to exchange rate changes.

The following table presents the carrying value of the net assets of our foreign operations in U.S. dollars at June 30, 2009:

(in millions)	**June 30, 2009**
Europe	$ 167.4
China	65.8
Mexico	6.3
Japan	1.0
Canada	0.9
Other	18.1

TSYS records foreign currency translation adjustments associated with other balance sheet accounts. The Company maintains several cash accounts denominated in foreign currencies, primarily in Euros and British Pounds Sterling. As TSYS translates the foreign-denominated cash balances into U.S. dollars, the translated cash balance is adjusted upward or downward depending upon the foreign currency exchange movements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation in the statements of income. As those cash accounts have increased, the upward or downward adjustments have increased. TSYS recorded a translation loss of approximately $3.1 million and $4.0 million for the three and six months ended June 30, 2009, respectively, relating to the translation of cash and other balance sheet accounts. The balance of the Company s foreign-denominated cash accounts subject to risk of translation gains or losses at June 30, 2009 was approximately $12.7 million, the majority of which is denominated in Euros.

The Company provides financing to its international operation in Europe through an intercompany loan that requires the operation to repay the financing in U.S. dollars. The functional currency of the operation is the respective local currency. As it translates the foreign currency denominated financial statements into U.S. dollars, the translated balance of the financing (liability) is adjusted upward or downward to match the U.S. dollar obligation (receivable) on its financial statements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation.

The net asset account balance subject to foreign currency exchange rates between the local currencies and the U.S. dollar at June 30, 2009 was $12.7 million.

The following table presents the potential effect on income before income taxes of hypothetical shifts in the foreign currency exchange rate between the local currencies and the U.S. dollar of plus or minus 100 basis points, 500 basis points and 1,000 basis points based on the net asset account balance of $12.7 million at June 30, 2009.

Effect of Basis Point Change

	Increase in basis point of			Decrease in basis point of		
(in thousands)	100	500	1,000	100	500	1,000
Effect on income before income taxes	$127	635	1,270	(127)	(635)	(1,270)

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TOTAL SYSTEM SERVICES, INC.

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

Interest Rate Risk

TSYS is also exposed to interest rate risk associated with the investing of available cash and the use of debt. TSYS invests available cash in conservative short-term instruments and is primarily subject to changes in the short-term interest rates.

On December 21, 2007, the Company entered into a Credit Agreement with Bank of America N.A., as Administrative Agent, The Royal Bank of Scotland plc, as Syndication Agent, and the other lenders. The Credit Agreement provides for a $168 million unsecured five year term loan to the Company and a $252 million five year unsecured revolving credit facility. The principal balance of loans outstanding under the credit facility bears interest at a rate of London Interbank Offered Rate (LIBOR) plus an applicable margin of 0.60%. Interest is paid on the last date of each interest period; however, if the period exceeds three months, interest is paid every three months after the beginning of such interest period.

On October 31, 2008, the Company s International Services segment obtained a credit agreement from a third-party to borrow up to approximately ¥2.0 billion, or $21 million, in a Yen-denominated three year loan to finance activities in Japan. The rate is LIBOR plus 80 basis points. The Company initially made a draw down of ¥1.5 billion, or approximately $15.1 million. In January 2009, the Company made an additional draw down of ¥250 million, or approximately $2.8 million. In April 2009, the Company made an additional draw down of ¥250 million, or approximately $2.5 million.

In connection with the formation of TSYS Managed Services EMEA Ltd. (TSYS Managed Services), both TSYS and Merchants agreed to provide long-term financing arrangements to TSYS Managed Services to fund future growth and expansion. At the end of June 2009, the balance of the loan from Merchants was approximately £2.0 million, or approximately $3.2 million, payable in total in five years, at an interest rate of LIBOR plus 2%, with interest payable quarterly.

In April 2009, TSYS Managed Services repaid its short-term note of £1.3 million, or approximately $1.8 million, that it acquired in June 2008.

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TOTAL SYSTEM SERVICES, INC.
Item 4 Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based on this evaluation, the chief executive officer and chief financial officer concluded that as of June 30, 2009, TSYS disclosure controls and procedures were designed and effective to ensure that the information required to be disclosed by TSYS in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and were also designed and effective to ensure that the information required to be disclosed in the reports that TSYS files or submits under the Exchange Act is accumulated and communicated to management, as appropriate to allow timely decisions regarding required disclosure. Other than as set forth in the paragraph below, no change in TSYS internal control over financial reporting occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In April 2009, the Company converted to a new billing system. The implementation is expected to materially impact the Company s internal control over financial reporting by providing more timely financial and accounting information and reducing manual processes.

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TOTAL SYSTEM SERVICES, INC.
Part II Other Information

Item 1A Risk Factors

In addition to the other information set forth in this report, one should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect the Company s financial position, results of operations or cash flows. The risks described in the Company s Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company s financial position, results of operations or cash flows.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

No purchases of TSYS stock were made pursuant to TSYS stock repurchase plan or otherwise during the three months ended June 30, 2009. In addition, during the same period, no shares of TSYS stock were delivered to it in payment of the exercise price of stock options or withheld to cover taxes on vesting for non-vested shares granted.

Item 4 Submission of Matters to a Vote of Security Holders

The annual shareholders meeting of Total System Services, Inc. was held April 29, 2009. There were three proposals voted on at the meeting.

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

NOMINEE	FOR	AGAINST	ABSTAIN
James H. Blanchard	157,243,338	9,274,814	371,146
Richard Y. Bradley	162,804,098	3,468,397	616,804
Walter W. Driver, Jr.	158,983,883	7,281,131	624,286
Gardiner W. Garrard, Jr.	156,887,020	9,235,852	766,427
W. Walter Miller, Jr.	160,054,799	6,270,220	564,280

Richard E. Anthony, Kriss Cloninger III, Sidney E. Harris, Alfred W. Jones III, Mason H. Lampton, H. Lynn Page, Philip W. Tomlinson, John T. Turner, Richard W. Ussery, M. Troy Woods, James D. Yancey and Rebecca K. Yarbrough also continued to serve as directors following the annual shareholders meeting although Alfred W. Jones III subsequently resigned.

Proposal II voted on at the meeting was the approval of the amendment of TSYS Articles of Incorporation to declassify the Board of Directors. Following is a tabulation of votes:

FOR	164,158,836
AGAINST	1,798,196
ABSTAIN	932,267

Proposal III voted on at the meeting was the ratification of KPMG LLP as the Independent Auditor for the fiscal year ending December 31, 2009. Following is a tabulation of votes:

FOR	163,531,088
AGAINST	2,824,204
ABSTAIN	534,008

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TOTAL SYSTEM SERVICES, INC.
Part II Other Information (continued)

Item 6 Exhibits
a) Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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TOTAL SYSTEM SERVICES, INC.
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	TOTAL SYSTEM SERVICES, INC.
Date: August 7, 2009	by: /s/ Philip W. Tomlinson Philip W. Tomlinson Chairman of the Board and Chief Executive Officer
Date: August 7, 2009	by: /s/ James B. Lipham James B. Lipham Senior Executive Vice President and Chief Financial Officer

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TOTAL SYSTEM SERVICES, INC.
Exhibit Index

Exhibit Number	Description
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31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002