TOTAL SYSTEM SERVICES INC
Form 10-Q
May 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2012

OR

¨ **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 x No ¨

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 x No ¨

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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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: April 30, 2012
Common Stock, $0.10 par value	189,081,320 shares

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TOTAL SYSTEM SERVICES, INC.

Part I Financial Information

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except per share data)	**March 31, 2012**	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ **370,955**	316,337
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of $3.7 million and $4.1 million at 2012 and 2011, respectively	**253,732**	248,541
Deferred income tax assets	**7,695**	12,872
Prepaid expenses and other current assets	**80,598**	72,431
Total current assets	**712,980**	650,181
Goodwill	**356,121**	355,498
Property and equipment, net of accumulated depreciation and amortization of $365.4 million and $357.1 million at 2012 and 2011, respectively	**260,900**	266,608
Computer software, net of accumulated amortization of $584.2 million and $567.4 million at 2012 and 2011, respectively	**205,027**	215,244
Contract acquisition costs, net of accumulated amortization of $279.5 million and $295.9 million at 2012 and 2011, respectively	**161,464**	162,987
Equity investments	**85,891**	82,924
Other intangible assets, net of accumulated amortization of $43.5 million and $39.8 million at 2012 and 2011, respectively	**79,440**	81,250
Deferred income tax assets, net	**4,970**	4,069
Other assets	**39,342**	39,631
Total assets	$ **1,906,135**	1,858,392
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ **181,301**	181,251
Accounts payable	**35,827**	26,095
Accrued salaries and employee benefits	**13,971**	33,004
Current portion of obligations under capital leases	**13,201**	14,363
Other current liabilities	**138,734**	125,863
Total current liabilities	**383,034**	380,576
Deferred income tax liabilities	**36,064**	32,889
Long-term debt, excluding current portion	**34,269**	39,104
Obligations under capital leases, excluding current portion	**23,418**	24,489
Other long-term liabilities	**61,126**	60,325
Total liabilities	**537,911**	537,383
Equity		
Shareholders equity:		
Common stock $0.10 par value. Authorized 600,000 shares; 202,447 and 201,860 issued at 2012 and 2011, respectively; 189,773 and 189,031 outstanding at 2012 and 2011, respectively	**20,245**	20,186
Additional paid-in capital	**129,104**	125,948

Accumulated other comprehensive income (loss), net	**3,489**	(445)
Treasury stock, at cost (shares of 12,674 and 12,829 at 2012 and 2011, respectively)	**(221,927)**	(225,034)
Retained earnings	**1,418,140**	1,380,634
Total shareholders equity	**1,349,051**	1,301,289
Noncontrolling interests in consolidated subsidiaries	**19,173**	19,720
Total equity	**1,368,224**	1,321,009
Commitments and contingencies		
Total liabilities and equity	**$ 1,906,135**	1,858,392

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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TOTAL SYSTEM SERVICES, INC.

Condensed Consolidated Statements of Income

(Unaudited)

(in thousands except per share data)		**Three months ended March 31, 2012**	2011
Total revenues	$	**461,162**	429,430
Cost of services		**318,258**	301,492
Selling, general and administrative expenses		**58,073**	54,910
Total operating expenses		**376,331**	356,402
Operating income		**84,831**	73,028
Nonoperating expenses		**(405)**	(728)
Income before income taxes and equity in income of equity investments		**84,426**	72,300
Income taxes		**29,556**	25,158
Income before equity in income of equity investments		**54,870**	47,142
Equity in income of equity investments, net of tax		**2,774**	2,270
Net income		**57,644**	49,412
Net income attributable to noncontrolling interests		**(1,249)**	(622)
Net income attributable to TSYS common shareholders	$	**56,395**	48,790
Basic earnings per share (EPS) attributable to TSYS common shareholders (Note 13)	$	**0.30**	0.25
Diluted EPS attributable to TSYS common shareholders	$	**0.30**	0.25

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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TOTAL SYSTEM SERVICES, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	**Three months ended March 31, 2012**	2011
Net income	$ **57,644**	49,412
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	**2,963**	10,271
Postretirement healthcare plan adjustments	**263**	(182)
Other comprehensive income	**3,226**	10,089
Comprehensive income	**60,870**	59,501
Comprehensive income attributable to noncontrolling interests	**(541)**	(721)
Comprehensive income attributable to TSYS common shareholders	$ **60,329**	58,780

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)	Three months ended March 31, **2012**	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 57,644**	49,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Net loss on foreign currency	**504**	352
Equity in income of equity investments, net of tax	**(2,774)**	(2,270)
Dividends received from equity investments		13
Depreciation and amortization	**40,873**	41,068
Amortization of debt issuance costs	**47**	26
Share-based compensation	**3,598**	4,332
Excess tax benefit from share-based payment arrangements	**(510)**	(103)
Asset impairments		773
Provisions for (recoveries of) bad debt expenses and billing adjustments	**(144)**	204
Charges for transaction processing provisions	**1,063**	1,296
Deferred income tax expense	**6,425**	3,874
Gain on disposal of equipment, net	**(2)**	(1,497)
Changes in operating assets and liabilities:		
Accounts receivable	**(5,424)**	2,971
Prepaid expenses, other current assets and other long-term assets	**(7,044)**	14,046
Accounts payable	**9,825**	(4,635)
Accrued salaries and employee benefits	**(19,111)**	(13,800)
Other current liabilities and other long-term liabilities	**12,943**	6,109
Net cash provided by operating activities	**97,913**	102,171
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to contract acquisition costs	**(5,099)**	(7,202)
Purchases of property and equipment, net	**(4,984)**	(5,960)
Additions to internally developed computer software	**(4,435)**	(4,478)
Additions to licensed computer software from vendors	**(2,593)**	(1,280)
Cash used in acquisitions, net of cash acquired	**(1,750)**	
Purchase of private equity investments	**(499)**	
Proceeds from sale of tradenames		4,500
Net cash used in investing activities	**(19,360)**	(14,420)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid on common stock	**(18,913)**	(13,556)
Principal payments on long-term debt borrowings and capital lease obligations	**(6,505)**	(8,551)
Subsidiary dividends paid to noncontrolling shareholders	**(1,087)**	
Excess tax benefit from share-based payment arrangements	**510**	103
Purchase of noncontrolling interest		(174,050)
Repurchase of common stock		(35,700)
Proceeds from exercise of stock options	**2,701**	1,119
Net cash used in financing activities	**(23,294)**	(230,635)

CASH AND CASH EQUIVALENTS:				
Effect of exchange rate changes on cash and cash equivalents		**(641)**		577
Net increase (decrease) in cash and cash equivalents		**54,618**		(142,307)
Cash and cash equivalents at beginning of period		**316,337**		394,795
Cash and cash equivalents at end of period	**$**	**370,955**	$	252,488
Supplemental cash flow information:				
Interest paid	**$**	**724**		709
Income taxes paid, net	**$**	**4,144**		3,447

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 and majority owned 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 Annual Report on Form 10-K for the year ended December 31, 2011. Results of interim periods are not necessarily indicative of results to be expected for the year.

In 2012, the Company adopted Accounting Standards Update (ASU) 2011-05, *Comprehensive Income* and ASU 2011-08, *Intangibles - Goodwill and Other* . The adoption of ASU 2011-05 and 2011-08 did not have a material impact on the Company s financial position, results of operations and cash flows.

Note 2 Fair Value Measurement

ASC 820, *Fair Value Measurements and Disclosure,* 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 or liability.

In February 2007, the Financial Accounting Standards Board (FASB) issued authoritative guidance under ASC 825, *Financial Instruments.* ASC 825 permits the Company to choose to measure many financial instruments and certain other items at fair value. Upon adoption of the guidance 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. An entity can first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit (RU) is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a RU with its book value, including goodwill. If the fair value of the RU 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 RU 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 RU s goodwill with the book value of that goodwill. If the book value of the RU 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 RU is allocated to all of the assets and liabilities of that unit as if the RU had been acquired in a business combination and the fair value of the RU was the purchase price paid to acquire the RU.

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The estimate of fair value of the Company s RUs is determined using various valuation techniques, including using the combination of the market approach and the income 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 RU reflects the present value of the projected earnings that will be generated by each RU 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 March 31, 2012, the Company had recorded goodwill in the amount of $356.1 million (Level 2).

The fair value of the Company s long-term debt and obligations under capital leases is not significantly different from its carrying value (Level 2).

Note 3 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)	**March 31, 2012**	December 31, 2011
Cash and cash equivalents in domestic accounts	**$ 305,325**	263,853
Cash and cash equivalents in foreign accounts	**65,630**	52,484
Total	**$ 370,955**	316,337

At March 31, 2012 and December 31, 2011, the Company had approximately $32.0 million and $22.0 million, respectively, 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 at the time of purchase that they present insignificant risk of changes in value because of change in interest rates.

Prepaid Expenses and Other Current Assets

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

(in thousands)	**March 31, 2012**	December 31, 2011
Prepaid expenses	**$ 36,231**	20,917
Supplies inventory	**7,784**	10,053
Other	**36,583**	41,461
Total	**$ 80,598**	72,431

Contract Acquisition Costs, net

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

(in thousands)		**March 31, 2012**	December 31, 2011
Conversion costs, net of accumulated amortization of $88.5 million and $109.8 million at 2012 and 2011, respectively	**$**	**89,055**	88,765
Payments for processing rights, net of accumulated amortization of $191.0 million and $186.1 million at 2012 and 2011, respectively		**72,409**	74,222
Total	**$**	**161,464**	162,987

Amortization expense related to conversion costs, which is recorded in cost of services, was $4.1 million and $4.5 million for the three months ended March 31, 2012 and 2011, respectively.

Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was $3.9 million for both the three months ended March 31, 2012 and 2011.

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During 2011, the Company recognized an impairment loss related to contract acquisition costs of $773,000.

Other Current Liabilities

Significant components of other current liabilities are summarized as follows:

(in thousands)	**March 31, 2012**	December 31, 2011
Accrued expenses	**$ 38,154**	40,141
Deferred revenues	**29,603**	29,707
Accrued income taxes	**24,414**	5,731
Dividends payable	**18,890**	18,913
Other	**27,673**	31,371
Total	**$ 138,734**	125,863

Note 4 Long-Term Debt

Refer to Note 13 of the Company s audited financial statements for the year ended December 31, 2011, which are included as Exhibit 13.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (SEC), for a discussion regarding long-term debt.

Note 5 Comprehensive Income

For the three months ended March 31, comprehensive income is summarized below:

	Three months ended March 31, 2012			Three months ended March 31, 2011		
(in thousands)	**TSYS Shareholders**	**Noncontrolling Interests**	**Total**	TSYS Shareholders	Noncontrolling Interests	Total
Net income	**$ 56,395**	**1,249**	**$ 57,644**	$ 48,790	622	$ 49,412
Other comprehensive income (OCI), net of tax:						
Foreign currency translation adjustments	**3,671**	**(708)**	**2,963**	10,172	99	10,271
Postretirement healthcare plan adjustments	**263**		**263**	(182)		(182)
Total	**$ 60,329**	**541**	**$ 60,870**	$ 58,780	721	$ 59,501

Consistent with its overall strategy of pursuing international investment opportunities, TSYS adopted the permanent reinvestment exception under ASC 740, *Income Taxes,* 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 OCI.

Note 6 Share-Based Compensation

The Company s Annual Report on Form 10-K for the year ended December 31, 2011, 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 cost of services and selling, general, and administrative 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

March 31, 2012, share-based compensation was $3.6 million, compared to $4.3 million for the same period in 2011. Included in the $3.6 million amount for 2012 and $4.3 million amount for 2011 is approximately $1.1 million and $1.9 million, respectively, related to expensing the fair value of stock options.

Nonvested and Performance Share Awards

As of March 31, 2012, there was approximately $10.4 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.

On March 29, 2012, TSYS authorized a total grant of 241,095 performance shares to certain key executives with a performance based vesting schedule (2012 performance shares). These 2012 performance shares have a 2012-2014 performance period for which the Compensation Committee established two performance goals: revenues before reimbursable items and income from continuing operations and, if such goals are attained in 2014, the performance shares will vest, up to a maximum of 200% of the total grant. Compensation expense for the award is measured on the grant date based on the quoted market price of TSYS common stock. The Company will estimate the probability of achieving the goals through the performance period and will expense the award on a straight-line basis.

During the first three months of 2012, the Company issued 310,690 shares of TSYS common stock with a market value of $6.7 million to certain key employees under nonvested stock bonus awards for services to be provided in the future by such officers 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.

On March 15, 2011, TSYS authorized a total grant of 263,292 performance shares to certain key executives with a performance based vesting schedule (2011 performance shares). These 2011 performance shares have a 2011-2013 performance period for which the Compensation Committee established two performance goals: revenues before reimbursable items and income from continuing operations and, if such goals are attained in 2013, the performance shares will vest, up to a maximum of 200% of the total grant. Compensation expense for the award is measured on the grant date based on the quoted market price of TSYS common stock. The Company will estimate the probability of achieving the goals through the performance period and will expense the award on a straight-line basis.

During the first three months of 2011, the Company issued 193,971 shares of TSYS common stock with a market value of $3.4 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.

Compensation costs related to the performance shares compensation arrangements are expected to be recognized until the end of 2014.

Stock Option Awards

On March 29, 2012, the Company granted 730,574 stock options to key TSYS executive officers. The average fair value of the option grant was $5.27 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 $22.91; risk-free interest rate of 1.75%; expected volatility of 24%; expected term of 7.9 years; and dividend yield of 1.75%. The grant will vest over a period of 3 years.

During the first three months of 2011, the Company granted 699,426 stock options to key TSYS executive officers. The average fair value of the option grant was $5.77 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 $17.57; risk-free interest rate of 2.96%; expected volatility of 30.0%; expected term of 8.5 years; and dividend yield of 1.59%. The grant will vest over a period of 3 years.

On April 30, 2010, the Company granted 1.4 million stock options to key TSYS executive officers that are performance- and/or market conditions-based. These stock options will vest and become exercisable on April 30, 2013 only if the stock price is at least a specified percentage above the grant date stock price or TSYS reaches a specified EPS goal by December 31, 2012. Given the market conditions component, TSYS evaluated the impact using the Monte Carlo simulation to value these awards and ultimately determined that the impact was minimal. The average fair value of the option grants was $3.48 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 $16.19; risk-free interest rate of 2.07%; expected volatility of 30.0%; expected term of 4.0 years; and dividend yield of 1.79%.

As of March 31, 2012, there was approximately $8 million of total unrecognized compensation cost related to TSYS stock options that is expected to be recognized over a remaining weighted average period of 1.7 years.

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Note 7 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 2008 and with a few exceptions, the Company is no longer subject to income tax examinations from state, local or foreign authorities for years before 2003. There are a number of tax examinations in progress by the relevant federal, foreign and state tax authorities. Although TSYS is unable to determine the ultimate outcome of these examinations, TSYS believes that its reserve for uncertain tax positions relating to these jurisdictions for such years is adequate.

TSYS effective tax rate attributable to continuing operations was 34.33% and 34.0% for the three months ended March 31, 2012 and 2011, respectively. The increased rate during the March 31, 2012 period was mostly due to changes in discrete items, tax credits and in the jurisdictional sources of income

TSYS continuously evaluates its ability to realize its deferred tax assets. Pursuant to such evaluations, TSYS established a valuation allowance in the amount of $0.6 million related to our international operations and released valuation allowances in the amount of $0.6 million related to our international and state operations during the three months ended March 31, 2012.

TSYS adopted the provisions of ASC 740 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 increased by $0.3 million during the three months ended March 31, 2012.

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 $0.7 million and $0.6 million as of March 31, 2012 and December 31, 2011, respectively. The total amounts of unrecognized income tax benefits as of March 31, 2012 and December 31, 2011 that, if recognized, would affect the effective tax rates are $5.8 million and $5.4 million (net of the Federal benefit on state tax issues), respectively, which include interest and penalties of $0.6 million and $0.5 million. TSYS does not expect any material changes to its calculation of uncertain tax positions during the next twelve months.

Note 8 Segment Reporting and Major Customers

The Company reports selected information about operating segments in accordance with ASC 280, *Segment Reporting*. 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.

TSYS provides electronic payment processing and other services to card-issuing and merchant acquiring institutions in the United States and internationally through online accounting and electronic payment processing systems.

On May 2, 2011, TSYS completed its acquisition of all of the outstanding common stock of TermNet Merchant Services, Inc. (TermNet), an Atlanta-based merchant acquirer. TermNet s financial results are included in the Merchant Services segment.

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. Corporate administration expenses, such as finance, legal, human resources, mergers and acquisitions and investor relations, that exist in all operating segments are accumulated and categorized as Corporate Administration.

The Company believes the terms and conditions of transactions between the segments are comparable to those which could have been obtained in transactions with unaffiliated parties. TSYS operating segments share certain resources, such as Information Technology support, that TSYS allocates asymmetrically.

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Operating Segments	Three months ended March 31,			
			Change	
(in thousands)	**2012**	2011	$	%
Revenues before reimbursable items				
North America Services	**$ 204,050**	194,590	9,460	4.9
International Services	**96,491**	87,419	9,072	10.4
Merchant Services	**98,356**	86,519	11,837	13.7
Intersegment revenues	**(3,718)**	(5,885)	2,167	36.8
Revenues before reimbursable items from external customers	**$ 395,179**	362,643	32,536	9.0
Total revenues				
North America Services	**$ 240,599**	230,558	10,041	4.4
International Services	**100,360**	90,710	9,650	10.6
Merchant Services	**125,518**	115,756	9,762	8.4
Intersegment revenues	**(5,315)**	(7,594)	2,279	30.0
Revenues from external customers	**$ 461,162**	429,430	31,732	7.4
Depreciation and amortization				
North America Services	**$ 18,454**	19,466	(1,012)	(5.2)
International Services	**12,911**	11,708	1,203	10.3
Merchant Services	**8,786**	9,146	(360)	(3.9)
Corporate Administration	**722**	748	(26)	(3.5)
Total depreciation and amortization	**$ 40,873**	41,068	(195)	(0.5)
Segment operating income				
North America Services	**$ 68,173**	55,200	12,973	23.5
International Services	**4,113**	11,025	(6,912)	(62.7)
Merchant Services	**34,219**	26,923	7,296	27.1
Corporate Administration	**(21,674)**	(20,120)	(1,554)	(7.7)
Operating income	**$ 84,831**	73,028	11,803	16.2

			Change	
Total Assets	**At March 31, 2012**	**At December 31, 2011**	$	%
North America Services	**$ 1,676,032**	1,621,664	54,368	3.4
International Services	**439,948**	433,203	6,745	1.6
Merchant Services	**498,586**	487,858	10,728	2.2
Corporate Administration	**(708,431)**	(684,333)	(24,098)	(3.5)
Total Assets	**$ 1,906,135**	1,858,392	47,743	2.6

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.

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The following geographic data presents revenues based on the domicile of the Company s customers:

(in millions)	Three months ended March 31, 2012	2011
United States	$ 305.5	$ 292.7
Europe*	73.0	65.8
Canada	50.8	44.1
Japan*	18.4	17.4
Mexico	2.4	1.9
Other	11.1	7.5
Total	$ 461.2	$ 429.4

* 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 operating segment based on the domicile of the Company s customers:

	Three months ended March 31,					
	North America Services		International Services		Merchant Services	
(in millions)	2012	2011	2012	2011	2012	2011
United States	$ 179.5	178.9			125.9	113.8
Europe	0.2	0.2	72.8	65.6		
Canada	50.7	44.0			0.1	0.1
Japan			18.4	17.4		
Mexico	2.4	1.9				
Other	2.6	2.5	8.4	4.8	0.2	0.2
Total	$ 235.4	227.5	99.6	87.8	126.2	114.1

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

(in millions)	At March 31, 2012	At December 31, 2011
United States	$ 190.6	194.8
Europe	52.3	52.4
Japan	8.5	9.7
Other	9.5	9.7
Total	$ 260.9	266.6

Major Customers

For the three months ended March 31, 2012, the Company had one major customer which accounted for approximately 10.5%, or $48.6 million, of total revenues. For the three months ended March 31, 2011, this major customer accounted for approximately 12.5%, or $53.6 million, of total revenues. Revenues from the major customer for the periods reported are primarily attributable to the North America Services and Merchant Services segments.

Note 9 Supplementary Cash Flow Information

Nonvested Awards

The Company issued shares of common stock to certain key employees and non-management members of its Board of Directors. The grants to certain key employees were issued under nonvested stock bonus awards for services to be provided in the future by such officers and employees. The grants to the Board of Directors were fully vested on the date of grant. Refer to Note 6 for more information.

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Equipment and Software Acquired Under Capital Lease Obligations

The Company acquired equipment and software under capital lease obligations in the amount of $1 million during the first three months of 2012 related to storage and other peripheral hardware.

Note 10 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. 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 ASC 450, Contingencies. In the opinion of management, based on current knowledge and in part upon the advice of legal counsel, all matters are believed to be adequately covered by insurance, or, if not covered, the possibility of losses from such matters are believed to be remote or such matters are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably.

Note 11 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 corporate spin-off of TSYS from Synovus Financial Corp.

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 12 Business Combinations

Refer to Note 24 of the Company s audited financial statements for the year ended December 31, 2011, as filed with the SEC, for a discussion regarding TSYS acquisitions.

Other

On February 1, 2012, TSYS acquired contract-based intangible assets in its Merchant Services segment for $1.7 million. These intangible assets are being amortized on a straight-line basis over their estimated useful lives of five years which approximates their usage.

Pro forma Results of Operations

The pro forma revenue and earnings of TSYS acquisitions are not material to the consolidated financial statements.

Note 13 Earnings Per Share

In June 2008, the FASB issued authoritative guidance under ASC 260, *Earnings Per Share.* The guidance under ASC 260 holds that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities as defined in ASC 260*,* and therefore should be included in computing earnings per share (EPS) using the two-class method.

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.

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The following table illustrates basic and diluted EPS under the guidance of ASC 260 for the three months ended March 31, 2012 and 2011:

	Three months ended March 31, 2012		Three months ended March 31, 2011	
(in thousands, except per share data)	**Common Stock**	**Participating Securities**	Common Stock	Participating Securities
Basic EPS:				
Net income	**$ 56,395**		48,790	
Less income allocated to nonvested awards	**(196)**	**196**	(191)	191
Net income allocated to common stock for EPS calculation (a)	**$ 56,199**	**196**	48,599	191
Average common shares outstanding (b)	**188,052**	**667**	192,851	765
Basic EPS (a)/(b)	**$ 0.30**	**0.29**	0.25	0.25
Diluted EPS:				
Net income	**$ 56,395**		48,790	
Less income allocated to nonvested awards	**(196)**	**196**	(191)	191
Net income allocated to common stock for EPS calculation (c)	**$ 56,199**	**196**	48,599	191
Average common shares outstanding	**188,052**	**667**	192,851	765
Increase due to assumed issuance of shares related to common equivalent shares outstanding	**1,010**		305	
Average common and common equivalent shares outstanding (d)	**189,062**	**667**	193,156	765
Diluted EPS (c)/(d)	**$ 0.30**	**0.29**	0.25	0.25

The diluted EPS calculation excludes stock options and nonvested awards that are convertible into 3.2 million common shares for the three months ended March 31, 2012, and excludes 8.7 million common shares for the three months ended March 31, 2011 because their inclusion would have been anti-dilutive.

Note 14 Subsequent Events

Management performed an evaluation of the Company s activity through 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 payment processing, merchant services and related services to financial and nonfinancial institutions, generally under long-term processing contracts. The Company s services are provided through three of the Company s operating segments: North America Services, International Services and Merchant Services.

Through the Company s North America Services and International Services segments, TSYS processes information through its cardholder systems to financial and nonfinancial institutions throughout the United States and internationally. The Company s North America Services segment provides these services in the United States to clients in the United States, Canada, Mexico and the Caribbean. The Company s International Services segment provides services in England, Japan and Brazil to clients in Europe, Asia Pacific, Brazil and the United States. The Company s Merchant Services segment provides merchant services to financial institutions and other organizations, primarily in the United States.

On May 2, 2011, TSYS completed its acquisition of all of the outstanding common stock of TermNet Merchant Services, Inc. (TermNet), an Atlanta-based merchant acquirer.

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, 2011.

A summary of the financial highlights for 2012, as compared to 2011, is provided below:

	Three months ended March 31,		
(in millions)	**2012**	2011	Percent Change
Total revenues	**$ 461.2**	429.4	7.4%
Operating income	**84.8**	73.0	16.2
Net income attributable to TSYS common shareholders	**56.4**	48.8	15.6

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

There have been no material changes other than what is noted below to the Company s critical accounting policies, estimates and assumptions or the judgments affecting the application of those estimates and assumptions in 2012. 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, and 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, 2011.

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 China UnionPay Data Co., Ltd. (CUP Data), are comparable to those which could have been obtained in transactions with unaffiliated parties. The Company s margins with respect to related party transactions are comparable to margins recognized in transactions with unrelated third parties.

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 for uncertain tax positions under ASC 740, *Income Taxes,* at March 31, 2012 is $6.1 million. Refer to Note 7 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 reserves within the next year.

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As indicated in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, total contractual cash obligations at December 31, 2011 were estimated at $506 million. These contractual cash obligations include lease payments and software arrangements.

Results of Operations

Revenues

The Company generates revenues by 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 revenues are impacted by currency translation of foreign operations, as well as doing business in the current economic environment.

Total revenues increased $31.7 million, or 7.4% during the three months ended March 31, 2012, compared to the same period in 2011. The increase in revenues for the three months ended March 31, 2012 includes a decrease of $1.1 million, related to the effects of currency translation of foreign-based subsidiaries and branches. The Company has included reimbursements received for out-of-pocket expenses as revenues and expenses. The largest reimbursable expense item for which TSYS is reimbursed by clients is 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. Reimbursable items for the three months ended March 31, 2012 were $66.0 million, a decrease of $0.8 million or 1.2% compared to $66.8 million for the same period last year. Excluding reimbursable items, revenues increased $32.5 million, or 9.0%, during the three months ended March 31, 2012 compared to the same period in 2011.

Major Customers

A significant amount of the Company s revenues is derived from long-term contracts with large clients, including a major customer. TSYS derives revenues from providing various processing and other services to these clients, including processing of consumer and commercial accounts, as well as revenues for reimbursable items. The loss of the Company s major customer 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 Major Customers, refer to Note 8 in the Notes to Unaudited Condensed Consolidated Financial Statements and 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, 2011.

Operating Segments

TSYS services are provided through its three operating segments: North America Services, International Services and Merchant Services. Refer to Note 8 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information on the Company s Operating segments.

The Company s North America and International segments have many long-term customer contracts with card issuers providing account processing and output services for printing and embossing items. These contracts generally require advance notice prior to the end of the contract if a client chooses not to renew. Additionally, some contracts may allow for early termination upon the occurrence of certain events such as a change in control. The termination fees paid upon the occurrence of such events are designed primarily to cover balance sheet exposure related to items such as capitalized conversion costs or client incentives associated with the contract and, in some cases, may cover a portion of lost future revenue and profit. Although these contracts may be terminated upon certain occurrences, the contracts provide the segment with a steady revenue stream since a vast majority of the contracts are honored through the contracted expiration date.

A summary of each segment s results follows:

North America Services

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

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Below is a summary of the North America Services segment:

	Three months ended March 31,		
(in millions)	**2012**	2011	Percent Change
Total revenues	**$ 240.6**	230.6	4.4%
Operating income	**68.2**	55.2	23.5
Operating margin	**28.3%**	23.9%	
Key indicators:			
AOF	**361.8**	309.6	16.9
Transactions	**1,893.0**	1,626.8	16.4

* Note: Segment operating margins do not include expenses associated with Corporate Administration. Refer to Note 8 for more information on operating segments.

The increase in total segment revenues for the three months ended March 31, 2012, as compared to the same period in 2011, is the result of new business and organic growth, which was partially offset by a decrease in revenues associated with client portfolio deconversions and price reductions.

International Services

The International Services segment provides issuer and merchant card solutions to financial institutions and other organizations primarily based outside the North America region. Changes in revenues in this segment are derived from retaining and growing the core business. Growing the core business comes primarily from an increase in account usage, growth from existing clients and sales to new clients and the related account conversions. This segment has one major customer.

Below is a summary of the International Services segment:

	Three months ended March 31,		
(in millions)	**2012**	2011	Percent Change
Total revenues	**$ 100.4**	90.7	10.6%
Operating income	**4.1**	11.0	(62.7)
Operating margin	**4.1%**	12.2%	
Key indicators:			
AOF	**54.1**	47.2	14.7
Transactions	**383.0**	326.0	17.5

* Note: Segment operating margins do not include expenses associated with Corporate Administration. Refer to Note 8 for more information on operating segments.

The increase in total segment revenues for the three months ended March 31, 2012, as compared to 2011, is the result of new business and organic growth, which was partially offset by the impact of foreign currency translation, client deconversions, and price reductions.

The decrease in operating income for the three months ended March 31, 2012, as compared to 2011, is driven by an increase in employment expenses due to the dedication of more internal resources to the International Services segment that were previously shared between the North America Services and International Services segments.

Merchant Services

The Merchant Services segment provides merchant processing and related services to clients based primarily in the United States. Merchant services revenues are derived from providing processing services, acquiring solutions, related systems and integrated support services to merchant acquirers and merchants. Revenues from merchant 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 market verticals. Merchant 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. This segment has one major customer.

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Below is a summary of the Merchant Services segment:

	Three months ended March 31,		
(in millions)	**2012**	2011	Percent Change
Total revenues	**$ 125.5**	115.8	8.4%
Operating income	**34.2**	26.9	27.1
Operating margin	**27.2%**	23.3%	
Key indicator:			
POS Transactions	**1,219.7**	1,206.8	1.1

* Note: Segment operating margins do not include expenses associated with Corporate Administration. Refer to Note 8 for more information on operating segments.

The increase in total segment revenues for the three months ended March 31, 2012, as compared to the same period in 2011, is the result of new business and organic growth, which was partially offset by a decrease for client deconversions and price reductions.

Merchant Services segment s results are driven by the authorization and capture transactions processed at the point-of-sale and clearing and settlement transactions. This segment s authorization and capture transactions are primarily through dial-up or Internet connectivity. The direct acquiring business is driven by dollar sales volume processed by merchants.

Refer to the discussion of Major Customers.

Operating Expenses

The Company s operating expenses consist of cost of services and selling, general and administrative expenses. Cost of services describes the direct expenses incurred in performing a particular service for our customers, including the cost of direct labor expense in placing the service in saleable condition. Selling, general and administrative expenses are incurred in selling or marketing and for the direction of the enterprise as a whole, including accounting, legal fees, officers salaries, investor relations and mergers and acquisitions.

The Company s cost of services were $318.3 million during the three months ended March 31, 2012, respectively, an increase of 5.6% compared to $301.5 million for the same period last year.

The Company s selling, general and administrative expenses were $58.1 million during the three months ended March 31, 2012, an increase of 5.8% compared to $54.9 million for the same period last year. The increase is the result of merit increases and the acquisition of TermNet, including amortization of acquisition intangibles.

Operating Income

Operating income increased 16.2% for the three months ended March 31, 2012, over the same period in 2011. The Company s operating profit margin for the three months ended March 31, 2012 was 18.4%, compared to 17.0% for the same period last year. TSYS operating margin increased for the three months ended March 31, 2012, as compared to the same period in 2011, as the result of an increase in revenues associated with growth in accounts on file and transactions.

Nonoperating Income (Expense)

Interest income for the three months ended March 31, 2012 was $394,000, an increase of $261,000, compared to $133,000 for the same period in 2011. The increase in interest income is primarily attributable to more money being deposited in interest bearing accounts in 2012 versus 2011.

Interest expense for the three months ended March 31, 2012 was $771,000, a decrease of $58,000 compared to $829,000 for the same period in 2011. The decrease in interest expense in 2012 compared to 2011 relates to lower interest expense related to lower rates on capital leases.

For the three months ended March 31, 2012 and 2011, the Company recorded a translation loss of approximately $504,000 and $352,000, respectively, related to intercompany loans and foreign-denominated balance sheet accounts.

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 balance of the Company s foreign-denominated cash accounts subject to risk of translation gains or losses at March 31, 2012 was approximately $3.3 million, the majority of which is denominated in Euros and British Pounds Sterling.

Income Taxes

TSYS effective income tax rate attributable to continuing operations for the three months ended March 31, 2012 was 34.3%, compared to 34.0% for the same period in 2011. The increase in the March 31, 2012 rate reflects changes in discrete items, tax credits and in the jurisdictional sources of income. The calculation of the effective tax rate is income taxes adjusted for income taxes associated with noncontrolling interest and equity income divided by TSYS pretax income adjusted for noncontrolling interests in consolidated subsidiaries net income and equity pre-tax earnings of its equity investments. Refer to Note 7 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.

No provision for U.S. federal and state incomes taxes has been made in our consolidated financial statements for those non-U.S. subsidiaries whose earnings are considered to be reinvested. The amount of undistributed earnings considered to be reinvested which may be subject to tax upon distribution was approximately $55.2 million at March 31, 2012. A distribution of these non-U.S. earnings in the form of dividends, or otherwise, would subject the Company to both U.S. federal and state income taxes, as adjusted for non-U.S. tax credits, and withholding taxes payable to the various non-U.S. countries. Determination of the amount of any unrecognized deferred income tax liability on these undistributed earnings is not practicable.

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 $2.8 and $2.3 million for the three months ended March 31, 2012 and 2011, respectively. The increase in TSYS share of income from its equity in equity investments for the three months ended March 31, 2012, as compared to 2011, is due to timing of renewal contracts and new business.

Net Income

Net income for the three months ended March 31, 2012 increased 16.7%, or $8.3 million, to $57.7 million, compared to $49.4 million for the same period in 2011.

Net income attributable to TSYS common shareholders for the three months ended March 31, 2012 increased 15.6%, or $7.6 million, to $56.4 million, or basic and diluted earnings per share of $0.30, compared to $48.8 million, or basic and diluted earnings per share of $0.25, for the same period in 2011.

Projected Outlook for 2012

As compared to 2011, TSYS expects its 2012 income from continuing operations to increase by 8%-10%, its EPS from continuing operations available to TSYS common shareholders to increase by 10%-12%, its revenues before reimbursable items to increase by 2%-5% and its total revenues to increase by 0%-2%, based on the following assumptions with respect to 2012: (1) there will be no significant movements in LIBOR and TSYS will not make any significant draws on the remaining balance of its revolving credit facility; (2) there will be no significant movement in foreign currency exchange rates related to TSYS business; (3) TSYS will not incur significant expenses associated with the conversion of new large clients or acquisitions, or any significant impairment of goodwill or other intangibles; (4) there will be no deconversions of large clients during the year; and (5) the economy will not worsen.

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 and acquisitions.

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Cash Flows From Operating Activities

(in thousands)	Three months ended March 31, 2012	2011
Net income	$ 57,644	49,412
Depreciation and amortization	40,873	41,068
Other noncash items and charges, net	9,227	7,000
Net change in current and other assets and current and other liabilities	(9,831)	4,691
Net cash provided by operating activities	$ 97,913	102,171

TSYS main source of funds is derived from operating activities, specifically net income. The decrease in 2012 in net cash provided by operating activities was primarily the result of the decrease in net change in current and other assets and current and other liabilities.

Net change in current and other assets and current and other 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 March 31, 2012, as compared to December 31, 2011, 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 payments of vendor invoices and the timing of payments.

Cash Flows From Investing Activities

(in thousands)	Three months ended March 31, 2012	2011
Additions to contract acquisition costs	$ (5,099)	(7,202)
Purchases of property and equipment, net	(4,984)	(5,960)
Additions to internally developed computer software	(4,435)	(4,478)
Additions to licensed computer software from vendors	(2,593)	(1,280)
Cash used in acquisitions, net of cash acquired	(1,750)	
Purchase of private equity investments	(499)	
Proceeds from sale of tradename		4,500
Net cash used in investing activities	$ (19,360)	(14,420)

The major uses of cash for investing activities have been acquisitions, the addition of property and equipment, primarily computer equipment, the purchase of licensed computer software and internal development of computer software, and investments in contract acquisition costs associated with obtaining and servicing new or existing clients. The major uses of cash for investing activities in 2012 was the investment in contract acquisition costs, the addition of property and equipment, the purchase of licensed computer software and internal development of computer software. The major uses of cash for investing activities in 2011 were for the additions to contract acquisition costs, equipment, licensed computer software from vendors and internally developed computer software. The main source of cash for investing activities in 2011 was for the sale of a tradename associated with the purchase of the remaining 49-percent interest in TSYS Merchant Solutions (TMS).

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 $5.1 million for the three months ended March 31, 2012, compared to $7.2 million for the three months ended March 31, 2011.

Purchase of Private Equity Investments

On May 31, 2011, the Company entered into a limited partnership agreement in connection with its agreement to invest in an Atlanta-based venture capital fund focused exclusively on investing in technology-enabled financial services companies. Pursuant to the limited partnership agreement, the Company has committed to invest up to $20 million in the fund so long as its ownership interest in the fund does not exceed 50%. In 2011, the Company made investments in the fund of $1.6 million. During the first three months of 2012, the Company made an additional investment of $0.5 million. In April 2012, the Company made an additional investment of $0.1 million.

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Cash Flows From Financing Activities

(in thousands)	Three months ended March 31, **2012**	2011
Dividends paid on common stock	**$ (18,913)**	(13,556)
Principal payments on long-term debt borrowings and capital lease obligations	**(6,505)**	(8,551)
Purchase of noncontrolling interests		(174,050)
Repurchase of common stock		(35,700)
Other	**2,124**	1,222
Net cash used in financing activities	**$ (23,294)**	(230,635)

The major use of cash from financing activities has been the purchase of noncontrolling interests, repurchase of common stock and payment of dividends. The major uses of cash from financing activities in 2012 was the payment of dividends. The major uses of cash from financing activities in 2011 was for the acquisition of the remaining 49% interest in TMS, repurchase of common stock, and payment of dividends.

Borrowings

For a detailed discussion regarding the Company s borrowings, see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations, and for a detailed discussion regarding the Company s long-term debt, see Note 13 Long-term Debt and Capital Lease Obligations in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Stock Repurchase Plan

For a detailed discussion regarding the Company s stock repurchase plan, see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations. At March 31, 2012, the Company had 5.3 million shares that could be repurchased under the plan.

Dividends

Dividends on common stock of $18.9 million were paid during the three months ended March 31, 2012, compared to $13.6 million paid during the three months ended March 31, 2011.

On October 25, 2011, TSYS announced that its Board of Directors approved a 42.9% increase in the regular quarterly dividend payable on the Company s common stock from $0.07 per share to $0.10 per share, payable on January 3, 2012 to shareholders of record as of the close of business on December 15, 2011.

Significant Noncash Transactions

Refer to Note 9 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information about supplementary cash flow information.

Foreign Operations

TSYS operates internationally and is subject to adverse movements in foreign currency exchange rates. TSYS does not enter into foreign exchange forward contracts to reduce its exposure to foreign currency rate changes; however, the Company continues to analyze potential hedging instruments to safeguard it from significant foreign currency translation risks.

TSYS maintains operating cash accounts outside the United States. Refer to Note 3 in the Notes to Unaudited Condensed Consolidated Financial Statements for more information on cash and cash equivalents. TSYS has adopted the permanent reinvestment exception under ASC 740 with respect to future earnings of certain foreign subsidiaries. While some of the foreign cash is available to repay intercompany financing arrangements, remaining amounts are not presently available to fund domestic operations and obligations without paying a significant amount of taxes upon its repatriation. Demand on the Company s cash has increased as a result of its strategic initiatives. TSYS funds these initiatives through a balance of internally generated cash, external sources of capital, and, when advantageous, access to foreign cash in a tax efficient manner. Where local regulations limit an efficient intercompany transfer of amounts held outside of the U.S., TSYS will continue to utilize these funds for local liquidity needs. Under current law, balances available to be repatriated to the U.S. would be subject to U.S. federal income taxes, less applicable foreign tax credits. TSYS has provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered permanently reinvested outside of the U.S. TSYS utilizes a variety of tax planning and financing strategies with the objective of having its worldwide cash available in the locations where it is needed.

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.

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Working Capital

TSYS may seek additional external sources of capital in the future. The form of any such financing will vary depending upon prevailing market and other conditions and may include short-term or long-term borrowings from financial institutions or the issuance of additional equity and/or debt securities such as industrial revenue bonds. However, there can be no assurance that funds will be available on terms acceptable to TSYS. Management expects that TSYS will continue to be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future, as evidenced by TSYS current ratio of 1.9:1. At March 31, 2012, TSYS had working capital of $329.9 million compared to $271.9 million at December 31, 2011.

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. 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 ASC 450, Contingencies. In the opinion of management, based on current knowledge and in part upon the advice of legal counsel, all matters are believed to be adequately covered by insurance, or, if not covered, the possibility of losses from such matters are believed to be remote or such matters 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.

Recent Accounting Pronouncements

The Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC, contains a discussion of recent accounting pronouncements and the expected impact on the Company s financial statements.

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 expectation that it will be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future; (ii) TSYS earnings guidance for 2012 total revenues, revenues before reimbursable items, income from continuing operations and EPS from continuing operations; (iii)TSYS belief with respect to lawsuits, claims and other complaints; (iv) TSYS expectation with respect to certain tax matters, and the assumptions underlying such statements. 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, estimates, projects, plans, may, could, should, would, and similar expre 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:

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 and other industries during 2012, 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 nationalization or seizure by banking regulators of TSYS clients;

the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on TSYS and our clients;

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;

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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, rules, regulations, credit card association rules or other industry standards affecting TSYS and our clients that may result in costly new compliance burdens on TSYS and our clients and lead to a decrease in the volume and/or number of transactions processed;

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

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, 2011 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.

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 TSYS foreign operations in U.S. dollars at March 31, 2012:

(in millions)	**March 31, 2012**
Europe	$ 171.5
China	78.9
Cyprus	38.9
Japan	24.7
Other	11.0

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 net translation loss of approximately $0.5 million for the three months ended March 31, 2012 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 March 31, 2012 was approximately $3.3 million, the majority of which was denominated in Euros and British Pounds Sterling.

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 March 31, 2012 was $14.6 million. The net asset account balance includes cash and net accounts receivable.

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 $17.9 million at March 31, 2012.

	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	$ 179	898	1,796	(179)	(898)	(1,796)

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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.

The Company s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC, contains a discussion of interest rate risk and the Company s debt obligations that are sensitive to changes in 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 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 ¥2.0 billion, or approximately $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. On December 30, 2011, the Company renewed its loan to extend the maturity date to November 5, 2014.

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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 March 31, 2012, 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.

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.

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TOTAL SYSTEM SERVICES, INC.

Part II Other Information

Item 1 Legal Proceedings

For information regarding TSYS Legal Proceedings, refer to Note 10 of the Notes to Unaudited Condensed Consolidated Financial Statements which is incorporated by reference into this item.

Factors 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, 2011, 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

The following table sets forth information regarding the Company s purchases of its common stock on a monthly basis during the three months ended March 31, 2012:

(in thousands, except per share data) Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
January 2012	13[(1)]	$ 20.94	9,693	5,307
February 2012			9,693	5,307
March 2012	2[(1)]	23.07	9,693	5,307
Total	15[(1)]	$ 21.29		

(1) Consists of delivery of shares to TSYS on vesting of restricted shares to pay taxes.

Item 6 Exhibits

a) Exhibits

Exhibit Number	Description
10.1	Form of Senior Executive Stock Option Agreement for 2012 stock option awards under the Total System Services, Inc. 2008 Omnibus Plan
10.2	

	Form of Senior Executive Performance Share Agreement for the 2012 performance share awards under the Total System Services, Inc. 2008 Omnibus Plan
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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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: May 7, 2012	by: /s/ Philip W. Tomlinson Philip W. Tomlinson Chairman of the Board and Chief Executive Officer
Date: May 7, 2012	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

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document