

TOTAL SYSTEM SERVICES INC
Form 10-Q
August 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

(State or other jurisdiction of incorporation or organization)

58-1493818

(I.R.S. Employer Identification No.)

One TSYS Way, Post Office Box 1755, Columbus, Georgia 31902

(Address of principal executive offices) (Zip Code)

(706) 644-6081

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(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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

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

CLASS
Common Stock, \$0.10 par value

OUTSTANDING AS OF: July 26, 2016
183,835,996 shares

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TOTAL SYSTEM SERVICES, INC.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****TOTAL SYSTEM SERVICES, INC.****Consolidated Balance Sheets****(Unaudited)**

| <i>(in thousands, except per share data)</i> | June 30, 2016 | December 31, 2015 |
|--|----------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 3) | \$ 465,319 | 389,328 |
| Accounts receivable, net of allowances for doubtful accounts, billing adjustments and merchant losses of \$5.3 million and \$4.0 million as of 2016 and 2015, respectively | 396,693 | 314,705 |
| Prepaid expenses and other current assets (Note 3) | 147,419 | 154,199 |
| Total current assets | 1,009,431 | 858,232 |
| Goodwill | 3,252,118 | 1,545,424 |
| Other intangible assets, net of accumulated amortization of \$327.0 million and \$257.1 million as of 2016 and 2015, respectively | 1,002,589 | 328,320 |
| Computer software, net of accumulated amortization of \$719.5 million and \$680.6 million as of 2016 and 2015, respectively | 459,290 | 405,070 |
| Property and equipment, net of accumulated depreciation and amortization of \$473.2 million and \$457.3 million as of 2016 and 2015, respectively (Note 7) | 286,843 | 289,898 |
| Contract acquisition costs, net of accumulated amortization of \$297.4 million and \$287.9 million as of 2016 and 2015, respectively (Note 3) | 249,148 | 247,811 |
| Equity investments, net | 116,523 | 106,118 |
| Deferred income tax assets | 6,394 | 6,242 |
| Other assets | 94,697 | 90,780 |
| Total assets | \$ 6,477,033 | 3,877,895 |
| Liabilities | | |
| Current liabilities: | | |
| Current portion of long-term borrowings (Note 4) | \$ 45,860 | 50,078 |
| Accrued salaries and employee benefits | 43,293 | 66,594 |
| Accounts payable | 34,428 | 52,213 |
| Current portion of obligations under capital leases | 3,225 | 3,468 |
| Other current liabilities (Note 3) | 236,679 | 166,579 |
| Total current liabilities | 363,485 | 338,932 |
| Long-term borrowings, excluding current portion (Note 4) | 3,597,586 | 1,373,878 |

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| | | |
|---|---------------------|-----------|
| Deferred income tax liabilities | 411,532 | 192,444 |
| Obligations under capital leases, excluding current portion | 2,568 | 3,663 |
| Other long-term liabilities | 93,135 | 96,886 |
| Total liabilities | 4,468,306 | 2,005,803 |
| Redeemable noncontrolling interest in consolidated subsidiary | 23,299 | 23,410 |
| Commitments and contingencies (Note 9) | | |
| Equity | | |
| Shareholders' equity: | | |
| Common stock \$0.10 par value. Authorized 600,000 shares; 202,765 and 202,769 issued as of 2016 and 2015, respectively; 183,826 and 182,781 outstanding as of 2016 and 2015, respectively | 20,277 | 20,277 |
| Additional paid-in capital | 256,002 | 241,891 |
| Accumulated other comprehensive loss, net (Note 3) | (47,277) | (33,544) |
| Treasury stock, at cost (18,939 and 19,988 shares as of 2016 and 2015, respectively) | (623,598) | (641,664) |
| Retained earnings | 2,380,024 | 2,256,058 |
| Total shareholders' equity | 1,985,428 | 1,843,018 |
| Noncontrolling interest in consolidated subsidiary | - | 5,664 |
| Total equity | 1,985,428 | 1,848,682 |
| Total liabilities and equity | \$ 6,477,033 | 3,877,895 |

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Consolidated Statements of Income****(Unaudited)**

| <i>(in thousands, except per share data)</i> | Three months ended June 30, | | Six months ended June 30, | |
|--|------------------------------------|----------|----------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Total revenues (Note 7) | \$ 1,151,587 | 692,652 | \$ 1,890,965 | 1,354,808 |
| Cost of services | 837,660 | 459,960 | 1,318,216 | 909,676 |
| Selling, general and administrative expenses | 178,106 | 102,090 | 285,241 | 192,034 |
| Total operating expenses | 1,015,766 | 562,050 | 1,603,457 | 1,101,710 |
| Operating income | 135,821 | 130,602 | 287,508 | 253,098 |
| Nonoperating expenses, net | (30,061) | (10,209) | (52,501) | (19,418) |
| Income before income taxes and equity in income of equity investments | 105,760 | 120,393 | 235,007 | 233,680 |
| Income taxes | 40,290 | 41,597 | 83,719 | 81,379 |
| Income before equity in income of equity investments | 65,470 | 78,796 | 151,288 | 152,301 |
| Equity in income of equity investments, net of tax | 6,278 | 4,579 | 12,868 | 9,973 |
| Net income | 71,748 | 83,375 | 164,156 | 162,274 |
| Net income attributable to noncontrolling interests | (2,040) | (536) | (3,820) | (1,680) |
| Net income attributable to Total System Services, Inc. (TSYS) common shareholders | \$ 69,708 | 82,839 | \$ 160,336 | \$ 160,594 |
| Basic earnings per share (EPS) attributable to TSYS common shareholders (Note 10): | \$ 0.38 | 0.45 | \$ 0.87 | 0.87 |
| Diluted EPS attributable to TSYS common shareholders (Note 10): | \$ 0.38 | 0.45 | \$ 0.87 | 0.87 |

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Consolidated Statements of Comprehensive Income****(Unaudited)**

| <i>(in thousands)</i> | Three months ended June 30, | | Six months ended June 30, | |
|---|------------------------------------|--------|----------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 71,748 | 83,375 | 164,156 | 162,274 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (11,159) | 9,641 | (13,927) | (3,720) |
| Postretirement healthcare plan adjustments | (391) | 147 | (781) | 294 |
| Unrealized gain on available-for-sale securities | 682 | 443 | 643 | 1,035 |
| Other comprehensive gain (loss) | (10,868) | 10,231 | (14,065) | (2,391) |
| Comprehensive income | 60,880 | 93,606 | 150,091 | 159,883 |
| Comprehensive income attributable to noncontrolling interests | (2,040) | (888) | (3,488) | (1,758) |
| Comprehensive income attributable to TSYS common shareholders | \$ 58,840 | 92,718 | 146,603 | 158,125 |

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents**TOTAL SYSTEM SERVICES, INC.****Consolidated Statements of Cash Flows****(Unaudited)**

| <i>(in thousands)</i> | Six months ended June, | |
|---|-------------------------------|-----------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | \$ 164,156 | 162,274 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 172,552 | 126,720 |
| Provisions for fraud and other losses | 25,216 | 20,210 |
| Share-based compensation | 20,724 | 20,173 |
| Deferred income tax (expense) benefit | 18,519 | (12,954) |
| Amortization of debt issuance costs | 11,451 | 917 |
| Provisions for bad debt expenses and billing adjustments | 2,938 | 2,486 |
| Charges for transaction processing provisions | 2,191 | 3,221 |
| Dividends received from equity investments | 808 | 984 |
| Amortization of bond discount | 318 | 197 |
| Changes in value of private equity investments | 316 | (1,521) |
| Loss on disposal of equipment, net | 289 | 4 |
| Net (gain) loss on foreign currency | (1,469) | 910 |
| Excess tax benefit from share-based payment arrangements | (8,034) | (4,106) |
| Equity in income of equity investments | (12,868) | (9,973) |
| Changes in operating assets and liabilities, net of effect of acquisition: | | |
| Accounts receivable | (28,384) | (34,323) |
| Accrued salaries and employee benefits | (27,554) | (1,299) |
| Prepaid expenses, other current assets and other long-term assets | (19,907) | (4,144) |
| Accounts payable | (17,473) | 564 |
| Other current liabilities and other long-term liabilities | 35,172 | 14,953 |
| Net cash provided by operating activities | 338,961 | 285,293 |
| Cash flows from investing activities: | | |
| Cash used in acquisitions, net of cash acquired | (2,345,438) | - |
| Additions to contract acquisition costs | (31,276) | (40,094) |
| Purchases of property and equipment | (20,669) | (22,454) |
| Additions to internally developed computer software | (18,484) | (20,869) |
| Additions to licensed computer software from vendors | (11,379) | (13,134) |
| Purchase of private equity investments | (1,730) | (2,800) |
| Proceeds from sale of private equity investment | 120 | 1,839 |
| Net cash used in investing activities | (2,428,856) | (97,512) |

Cash flows from financing activities:

| | | |
|--|------------------|------------------|
| Proceeds from borrowings of long-term debt | 2,666,295 | - |
| Proceeds from exercise of stock options | 9,737 | 19,260 |
| Excess tax benefit from share-based payment arrangements | 8,034 | 4,106 |
| Subsidiary dividends paid to noncontrolling shareholders | (3,829) | (2,818) |
| Repurchase of common stock under plans and tax withholding | (5,034) | (83,521) |
| Purchase of noncontrolling interest | (5,878) | - |
| Debt issuance costs | (26,554) | - |
| Dividends paid on common stock | (36,622) | (36,878) |
| Principal payments on long-term borrowings and capital lease obligations | (435,953) | (26,393) |
| Net cash provided by (used in) financing activities | 2,170,196 | (126,244) |

Cash and cash equivalents:

| | | |
|--|------------|---------|
| Effect of exchange rate changes on cash and cash equivalents | (4,310) | (1,342) |
| Net increase in cash and cash equivalents | 75,991 | 60,195 |
| Cash and cash equivalents at beginning of period | 389,328 | 289,183 |
| Cash and cash equivalents at end of period | \$ 465,319 | 349,378 |

Supplemental cash flow information:

| | | |
|------------------------|-----------|--------|
| Interest paid | \$ 30,029 | 20,305 |
| Income taxes paid, net | \$ 26,134 | 68,256 |

See accompanying Notes to Unaudited Consolidated Financial Statements

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TOTAL SYSTEM SERVICES, INC.

Notes to Unaudited Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Business

Total System Services, Inc.'s (TSYS or the Company's) revenues are derived from providing payment processing, merchant services and related payment services to financial and nonfinancial institutions, generally under long-term processing contracts. The Company also derives revenues by providing general-purpose reloadable (GPR) prepaid debit cards and payroll cards and alternative financial services to underbanked consumers. The Company's services are provided through four operating segments: North America Services, International Services, Merchant Services and NetSpend.

Through the Company's North America Services and International Services segments, TSYS processes information through its cardholder systems for financial and nonfinancial institutions throughout the United States and internationally. The Company's North America Services segment provides these services to clients in the United States, Canada, Mexico and the Caribbean. The Company's International Services segment provides services to clients in Europe, India, Middle East, Africa, Asia Pacific and Brazil. The Company's Merchant Services segment provides merchant services to merchant acquirers and merchants mainly in the United States. The Company's NetSpend segment provides services to consumers in the United States.

Basis of Presentation

The accompanying unaudited consolidated financial statements of TSYS 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 generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and, therefore, do not include all information and footnotes required by U.S. GAAP for complete financial statements. The preparation of the consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities as of 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.

Certain prior period amounts may have been reclassified to conform to the current period's presentation.

The accompanying unaudited 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, 2015, as filed with the Securities and Exchange Commission (SEC). Results of interim periods are not necessarily indicative of results to be expected for the year.

Revenue Recognition

With the acquisition of TransFirst Holdings Corp. (TransFirst) on April 1, 2016, TSYS included TransFirst's results as part of the Merchant Services segment. TransFirst's revenues are reported gross, which includes amounts paid for interchange and assessments as TransFirst is the principal in the contractual relationship with its customers. Expenses covering interchange and assessment fees are included in TransFirst's cost of services and are directly attributable to processing fee revenues and are recognized in the same period as the related revenue.

Table of Contents*Recently Adopted Accounting Pronouncements*

The Company adopted the following Accounting Standards Updates (ASUs) on January 1, 2016:

ASU 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, requires the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Also, companies will no longer allocate valuation allowances between current and noncurrent deferred tax assets because those allowances also will be classified as noncurrent. The Company early adopted this ASU resulting in \$24.7 million of current net deferred tax assets as of December 31, 2015 being moved to noncurrent. The guidance was applied retrospectively. The adoption of this ASU did not have a material impact on the Company's results of operations or cash flows.

ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations or cash flows.

ASU 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting and *ASU 2015-03 Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. These ASUs require entities to present debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the corresponding debt liability, consistent with debt discounts, and allow entities to defer and present debt issuance costs associated with a line-of-credit as an asset and subsequently amortize deferred debt issuance costs ratably over the term of a line-of-credit arrangement. The guidance was applied retrospectively. The adoption of this guidance resulted in \$6.4 million of debt issuance costs as of December 31, 2015 being moved from noncurrent assets on the Company's balance sheet to liabilities that offset both the current and noncurrent portions of the debt which these costs are associated as of June 30, 2016. The Company continues to include debt issuance costs associated with a line-of-credit in its noncurrent assets. The adoption of this guidance did not have a material impact on the Company's results of operations or cash flows.

ASU 2015-05 Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in this ASU provide guidance about whether a cloud computing arrangement includes a software license or a service agreement. The Company adopted this ASU on a prospective basis. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations or cash flows.

ASU 2015-01 Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates from GAAP the concept of extraordinary items. The adoption of this ASU did not have a material impact on the financial position, results of operations or cash flows of the Company.

New Accounting Pronouncements

In May 2016, the FASB issued ASU 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients*, which affects only the following narrow aspects of Topic 606: Assessing the Collectability Criterion; Presentation of Sales and Other Taxes Collected from Customers; Noncash Consideration; Contract Modification at Transition; Completed Contracts at Transition; and Technical Correction. The ASU is effective for the Company on January 1, 2018, with early adoption permitted no sooner than January 1, 2017. The

Company has not determined the effect on its ongoing financial reporting for adoption of this ASU.

In April 2016, the FASB issued ASU 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The ASU is effective for the Company on January 1, 2018, with early adoption permitted no sooner than January 1, 2017. The Company has not determined the effect on its ongoing financial reporting for adoption of this ASU.

In March 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-07 *Simplifying the Transition to the Equity Method of Accounting*, which simplifies the equity method of accounting by eliminating the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. The ASU further requires that unrealized holding gains or losses in accumulated other comprehensive income related to an available-for-sale security that becomes eligible for

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the equity method be recognized in earnings as of the date on which the investment qualifies for the equity method. The guidance in the ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is permitted for all entities. Entities are required to apply the guidance prospectively to increases in the level of ownership interest or degree of influence occurring after the ASU's effective date. The Company does not expect the adoption of this ASU to have a material impact on the Company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-09 *Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. The Company has not determined the effect on its ongoing financial reporting for adoption of this ASU.

In February 2016, the FASB issued ASU 2016-02 *Leases (Topic 842)*. ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet and aligns many of the underlying principles of the new lessor model with those in the FASB's new revenue recognition standard. The ASU also addresses other concerns related to the current leases model. The new guidance will be effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption will be permitted for all entities. The Company has not determined the effect on its ongoing financial reporting for adoption of this ASU.

In January 2016, the FASB issued ASU 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. The ASU significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The new standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Company does not expect the adoption of this ASU to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018, with early adoption permitted no sooner than January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect on its ongoing financial reporting.

Note 2 Fair Value Measurement

Refer to Note 3 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding fair value measurement.

GAAP 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.

The Company had no transfers between Level 1, Level 2 or Level 3 assets during the six months ended June 30, 2016 and 2015.

As of June 30, 2016, the Company had recorded goodwill in the amount of \$3.3 billion. The Company performed its annual impairment testing of its goodwill balance as of May 31, 2016, and this test did not indicate any impairment. The fair value of the reporting units substantially exceeds their carrying value.

Table of Contents**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:

| <i>(in thousands)</i> | June 30, 2016 | December 31, 2015 |
|--|----------------------|-------------------|
| Cash and cash equivalents in domestic accounts | \$ 405,248 | 307,578 |
| Cash and cash equivalents in foreign accounts | 60,071 | 81,750 |
| Total | \$ 465,319 | 389,328 |

Prepaid Expenses and Other Current Assets

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

| <i>(in thousands)</i> | June 30, 2016 | December 31, 2015 |
|-------------------------|----------------------|-------------------|
| Prepaid expenses | \$ 54,821 | 37,961 |
| Supplies inventory | 15,808 | 15,114 |
| Income taxes receivable | 21,065 | 51,322 |
| Other | 55,725 | 49,802 |
| Total | \$ 147,419 | 154,199 |

Contract Acquisition Costs, Net

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

| <i>(in thousands)</i> | June 30, 2016 | December 31, 2015 |
|--|----------------------|-------------------|
| Conversion costs, net of accumulated amortization of \$156.6 million and \$149.9 million as of 2016 and 2015, respectively | \$ 151,870 | 159,000 |
| Payments for processing rights, net of accumulated amortization of \$140.8 million and \$137.9 million as of 2016 and 2015, respectively | 97,278 | 88,811 |

| | | | |
|-------|----|----------------|---------|
| Total | \$ | 249,148 | 247,811 |
|-------|----|----------------|---------|

Amortization expense related to conversion costs, which is recorded in cost of services, was \$7.3 million and \$7.6 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, amortization expense related to conversion costs was \$14.4 million and \$13.1 million, respectively.

Amortization related to payments for processing rights, which is recorded as a reduction of revenues, was \$5.0 million and \$3.7 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, amortization expense related to payments for processing rights was \$9.9 million and \$7.8 million, respectively.

Other Current Liabilities

Significant components of other current liabilities are summarized as follows:

| <i>(in thousands)</i> | | June 30, 2016 | December 31, 2015 |
|---------------------------------|----|----------------------|-------------------|
| Deferred revenues | \$ | 41,574 | 39,863 |
| Accrued expenses | | 32,474 | 26,017 |
| Dividends payable | | 19,115 | 19,367 |
| Accrued interest | | 21,374 | 2,820 |
| Accrued third-party commissions | | 25,671 | 9,810 |
| Other | | 96,471 | 68,702 |
| Total | \$ | 236,679 | 166,579 |

Table of Contents*Accumulated Other Comprehensive Income (AOCI)*

The income tax effects allocated to and the cumulative balance of accumulated other comprehensive income (loss) attributable to TSYS shareholders are as follows:

| <i>(in thousands)</i> | (a) Beginning Balance December 31, 2015 | (b) Pretax Amount | (c) Tax Effect | (d) Net-of-Tax Amount (b-c) | (a+d) Ending Balance June 30, 2016 |
|--|---|-------------------------|-------------------|--------------------------------------|--|
| Foreign currency translation adjustments and transfers from noncontrolling interests | \$ (35,013) | (16,879) | (3,284) | \$ (13,595) | \$ (48,609) |
| Unrealized gain on available-for-sale securities | 2,503 | 1,004 | 361 | 643 | 3,146 |
| Change in AOCI related to postretirement healthcare plans | (1,034) | (1,224) | (443) | (781) | (1,814) |
| Total | \$ (33,544) | (17,099) | (3,366) | \$ (13,733) | \$ (47,277) |

There were no reclassifications of AOCI to net income or to other accounts for the six months ended June 30, 2016.

Note 4 Long-Term Borrowings

On January 26, 2016, the Company entered into a Stock Purchase Agreement (the *Purchase Agreement*) with Vista Equity Partners Fund V, L.P., a Delaware limited partnership (*Fund V*), Vista Equity Partners Fund V-A, L.P., a Cayman Islands limited partnership (*Fund V-A*), Vista Equity Partners Fund V-B, L.P., a Cayman Islands limited partnership (*Fund V-B*), Vista Equity Partners Fund V Executive, L.P., a Delaware limited partnership (*Fund V Executive*), VEPF V FAF, L.P., a Delaware limited partnership (*VEPF V*), Vista Equity Associates, LLC, a Delaware limited liability company (*Associates LLC* and, together with Fund V, Fund V-A, Fund V-B, Fund V Executive and VEPF V, the *Sellers*), and TransFirst, a Delaware corporation, pursuant to which, and upon the terms and subject to the conditions set forth in the Purchase Agreement, the Company acquired all of the outstanding capital stock of TransFirst from the Sellers on April 1, 2016.

On February 23, 2016, the Company entered into a Credit Agreement (the *Credit Agreement*) with JPMorgan Chase Bank, N.A., as Administrative Agent and L/C Issuer, Bank of America, N.A., as Syndication Agent and L/C Issuer, The Bank of Tokyo-Mitsubishi UFJ, LTD., U.S. Bank National Association and Wells Fargo Bank, National Association, as Co-Documentation Agents, and the other lenders party thereto, with J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, The Bank of Tokyo-Mitsubishi UFJ, LTD., U.S. Bank National Association and Wells Fargo Securities, LLC as joint lead arrangers and joint bookrunners. The Credit Agreement provides the Company with a \$700 million five-year term loan facility (the *Term Loan Facility*) consisting of (i) a \$300 million term loan (the *Refinancing Term Loan*) funded upon entry into the Credit Agreement and (ii) a \$400 million term loan (the *Delayed Draw Term Loan*). The Credit Agreement also provides the Company with a \$800 million unsecured revolving credit facility (the *Revolving Loan Facility*), which includes a \$50 million sub-facility for

the issuance of standby letters of credit.

The Refinancing Term Loan was used to repay in full the Company's outstanding loans and other obligations under that certain credit agreement, dated as of September 10, 2012, by and among the Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent thereunder, as amended, and that certain credit agreement, dated as of April 8, 2013, by and among the Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent thereunder, as amended. The Delayed Draw Term Loan was used to finance, in part, the Acquisition and related transactions, upon satisfaction of a limited set of conditions precedent. The Revolving Loan Facility is available for draws for purposes of working capital and other general corporate purposes, including to finance, in part, the Acquisition and related transactions upon satisfaction of a limited set of conditions precedent.

Concurrently with entering into the Purchase Agreement, the Company obtained commitments for a \$2.0 billion 364-day bridge term loan facility from JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank of America N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd, U.S. Bank National Association, Wells Fargo Securities, LLC and Wells Fargo Bank, National Association (collectively, the Commitment Parties). Thereafter, the Commitment Parties assigned portions of their commitments to certain other bridge facility lenders. Based on the terms of the bridge term loan facility commitment letter, upon entering into the Credit Agreement, the total commitments under the bridge term loan facility were reduced from \$2.0 billion to \$1.15 billion by the amount of the Delayed Draw Term Loan commitment and the portion of the Revolving Loan Facility commitments in excess of \$350 million. The bridge term loan facility was terminated in March 2016 after the issuance of the Notes described below.

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Borrowings under the Credit Agreement will accrue interest at the base rate (as defined in the Credit Agreement) or, for certain euro-denominated borrowings, the London Interbank Offered Rate (LIBOR), in each case plus a margin that is set based on the Company's corporate credit ratings. The applicable margin for loans bearing interest based on LIBOR ranges from 0.900% to 1.500% for revolving loans and 1.000% to 1.750% for term loans. The applicable margin for loans bearing interest based on the base rate ranges from 0.000% to 0.500% for revolving loans and 0.000% to 0.750% for term loans. In addition, the Company will pay the lenders a facility fee ranging from 0.100% to 0.250% per annum, depending on the Company's corporate credit ratings, on the commitments under the Revolving Loan Facility (regardless of usages) and the undrawn commitment amount in respect of the Delayed Draw Term Loan. Based on the Company's current corporate credit ratings, (i) the applicable margin for loans accruing interest at the base rate is 0.500% for term loans and 0.300% for revolving loans and (ii) the applicable margin for loans accruing interest at LIBOR is 1.500% for term loans and 1.300% for revolving loans. The Credit Agreement contains customary covenants regarding, among other matters, the maintenance of insurance, the preservation and maintenance of our corporate existence, material compliance with laws and the payment of taxes and other material obligations. During the quarter ended June 30, 2016, the Company repaid \$125.0 million on the Revolving Loan Facility. As of June 30, 2016, the outstanding balance on the Revolving Loan Facility was \$345.0 million.

On March 17, 2016, the Company closed its sale (the Transaction) of \$750 million aggregate principal amount of 3.800% Senior Notes due 2021 and \$750 million aggregate principal amount of 4.800% Senior Notes due 2026 (collectively, the Notes) pursuant to an agreement (the Underwriting Agreement) with J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the underwriters, whereby the Company agreed to sell and the Underwriters agreed to purchase the Notes from the Company, subject to and upon the terms and conditions set forth in the Underwriting Agreement. The Company used the net proceeds of the Transaction to pay a portion of the approximately \$2.35 billion purchase price of the Company's acquisition of TransFirst and related fees and expenses. The Notes were issued pursuant to a Senior Indenture, dated as of March 17, 2016, between the Company and Regions Bank, as trustee.

For more information regarding the indebtedness and the acquisition, refer to Note 12. Refer to Note 13 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding long-term borrowings.

Note 5 Share-Based Compensation

Refer to Notes 1 and 19 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding the Company's share-based compensation plans and policy.

Share-Based Compensation

Share-based compensation costs are classified as selling, general and administrative expenses on the Company's statements of income and corporate administration and other expenses typically for segment reporting purposes. TSYS share-based compensation costs are expensed, rather than capitalized, as these awards are typically granted to individuals not involved in capitalizable activities. For the three months ended June 30, 2016, share-based compensation was \$12.6 million, compared to \$12.0 million for the same period in 2015. For the six months ended June 30, 2016, share-based compensation was \$20.7 million, compared to \$20.2 million for the same period in 2015.

Nonvested Share Awards

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The Company granted shares of TSYS common stock to certain key employees. The nonvested stock bonus awards are typically for services to be provided in the future and vest over a period of up to four years. The market value of the TSYS common stock as of the date of issuance is charged as compensation expense over the vesting periods of the awards.

| | Six months ended June 30, | |
|-------------------------------------|---------------------------|---------|
| | 2016 | 2015 |
| Number of shares granted | 326,678 | 367,175 |
| Market value (<i>in millions</i>) | \$ 15.0 | 13.9 |

Table of Contents*Performance- and Market-Based Awards*

The Company granted performance- and market-based shares to certain key executives. The Company has also granted performance-based shares to certain key employees. The performance- and market-based goals are established by the Compensation Committee of the Board of Directors and will vest, up to a maximum of 200%. During the first six months of 2016 and 2015, the Compensation Committee established performance goals based on adjusted EPS, revenue growth and revenues before reimbursable items and market goals based on Total Shareholder Return (TSR) as compared to the TSR of the companies in the S&P 500 over the performance period.

Compensation expense for performance shares is measured on the grant date based on the quoted market price of TSYS common stock. The Company estimates the probability of achieving the goals through the performance period and expenses the awards on a straight-line basis. The fair value of market-based awards is estimated on the grant date using a Monte Carlo simulation model. The Company expenses market-based awards on a straight-line basis. Compensation costs related to performance- and market-based shares are recognized through the longer of the performance period or the vesting period. As of June 30, 2016, there was approximately \$30.7 million of unrecognized compensation cost related to TSYS performance-based awards that is expected to be recognized through December 2018. As of June 30, 2016, there was approximately \$3.2 million of unrecognized compensation cost related to TSYS market-based awards that is expected to be recognized through December 2018.

The following table summarizes the market-based awards granted during the first six months of 2016 and 2015:

| Year Awarded | Type of Award | Performance Period Ending | Performance Measure | Number of Shares Granted | Period Expensed Through |
|---------------------|----------------------|----------------------------------|----------------------------|---------------------------------|--------------------------------|
| 2016 | Market | December 2017 | TSR | 6,403 | December 2017 |
| 2016 | Market | December 2018 | TSR | 50,878 | December 2018 |
| 2015 | Market | December 2017 | TSR | 54,872 | December 2017 |

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The following table summarizes the performance-based awards granted during the first six months of 2016 and 2015:

| Year Awarded | Type of Award | Performance Period Ending | Performance Measure | Number of Shares Granted | Period Expensed Through |
|---------------------|----------------------|----------------------------------|---|---------------------------------|--------------------------------|
| 2016 | Performance | December 2016 | Revenues before Reimbursable Items and Adjusted EPS | 15,605 | December 2016 |
| 2016 | Performance | December 2017 | Adjusted EPS | 14,940 | December 2017 |
| 2016 | Performance | December 2018 | Merchant Segment Net Revenue, Corporate Accountability Operating Income and attainment of synergies from TransFirst acquisition | 29,332 | December 2018 |
| 2016 | Performance | December 2018 | Revenues before Reimbursable Items and Adjusted Operating Income | 67,517 | December 2018 |
| 2016 | Performance | December 2018 | Merchant Segment Net Revenue and Corporate Accountability Operating Income | 78,220 | December 2018 |

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2016 Performance December 2018 Adjusted EPS 118,722 December 2018

2016 Performance December 2016 Revenues before Reimbursable Items and Adjusted EPS 144,995 December 2018

2015 Performance December 2017 Adjusted EPS 128,034 December 2017

2015 Performance December 2015 Revenues before Reimbursable Items and Adjusted EPS 165,543 December 2018

Stock Option Awards

The Company granted stock options to certain key executives. The grants will vest over a period of up to three years.

The weighted average fair value of the option grants was estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

| | Six months ended June 30, | |
|---------------------------------|----------------------------------|-------------|
| | 2016 | 2015 |
| Number of options granted | 687,685 | 585,833 |
| Weighted average exercise price | \$ 47.01 | 38.67 |
| Risk-free interest rate | 1.24 % | 1.72 % |
| Expected volatility | 21.53 % | 20.83 % |
| Expected term (years) | 4.5 | 6.3 |
| Dividend yield | 0.86 % | 1.04 % |
| Weighted average fair value | \$ 8.50 | 8.11 |

As of June 30, 2016, there was approximately \$5.4 million of unrecognized compensation cost related to TSYS stock options that is expected to be recognized over a remaining weighted average period of 1.6 years.

Table of Contents**Note 6 Income Taxes**

Refer to Notes 1 and 15 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding 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 2011 and with few exceptions, the Company is no longer subject to income tax examinations from state and local or foreign tax authorities for years before 2005. There are currently federal income tax examinations in progress for the years 2009 through 2012 for a subsidiary which TSYS acquired in 2013. Also, TSYS is currently undergoing federal income tax examinations for the years 2011 through 2013. Additionally, a number of tax examinations are in progress by the relevant 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 38.1% and 34.6% for the three months ended June 30, 2016 and 2015, respectively. TSYS' effective tax rate was 35.6% and 34.8% for the six months ended June 30, 2016 and 2015, respectively. The increased rate during the six months ended June 30, 2016 was primarily due to differences in discrete items and differences in permanent items.

GAAP prescribes 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 were \$14.2 million and \$13.1 million as of June 30, 2016 and December 31, 2015, respectively, which resulted in an increase of \$1.1 million during the period.

TSYS recognizes potential interest and penalties related to the underpayment of income taxes as income tax expense in the consolidated statements of income. Gross accrued interest and penalties on unrecognized tax benefits totaled \$0.9 million and \$0.7 million as of June 30, 2016 and December 31, 2015, respectively. The total amounts of unrecognized income tax benefits as of June 30, 2016 and December 31, 2015, that, if recognized, would affect the effective tax rates are \$14.4 million and \$13.2 million (net of the federal benefit on state tax issues), respectively, which include interest and penalties of \$0.6 million and \$0.5 million, respectively. TSYS does not expect any material changes to its calculation of uncertain tax positions during the next twelve months.

Note 7 Segment Reporting and Major Customers

Refer to Note 22 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding segment reporting and major customers.

The following table presents the Company's total assets by segment:

| | As of | |
|------------------------|---------------|-------------------|
| | June 30, 2016 | December 31, 2015 |
| North America Services | \$ 5,783,281 | 3,485,924 |

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| | | |
|------------------------|---------------------|-------------|
| International Services | 305,927 | 348,714 |
| Merchant Services | 3,361,007 | 689,781 |
| NetSpend | 1,479,537 | 1,504,740 |
| Intersegment assets | (4,452,719) | (2,151,264) |
| Total assets | \$ 6,477,033 | 3,877,895 |

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The following table presents the Company's operating results by segment:

| Operating Segments | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|----------|---------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>(in thousands)</i> | | | | |
| Operating income (a) | \$ 135,821 | 130,602 | 287,508 | 253,098 |
| Share-based compensation | 12,566 | 12,030 | 20,724 | 20,173 |
| TransFirst M&A expenses | 20,676 | - | 24,078 | - |
| Acquisition intangible amortization | 58,486 | 22,852 | 81,407 | 46,718 |
| Adjusted operating income (b) | \$ 227,549 | 165,484 | 413,717 | 319,989 |
| Adjusted operating income by segment: | | | | |
| North America Services (c) | \$ 112,737 | 108,385 | 237,525 | 210,956 |
| International Services (d) | 15,751 | 13,353 | 26,040 | 20,336 |
| Merchant Services (e) | 89,915 | 40,690 | 128,272 | 74,805 |
| NetSpend (f) | 42,481 | 36,442 | 84,682 | 71,909 |
| Corporate Administration and Other | (33,335) | (33,386) | (62,802) | (58,017) |
| Adjusted segment operating income | \$ 227,549 | 165,484 | 413,717 | 319,989 |
| Total revenues (g) | \$ 1,151,587 | 692,652 | 1,890,965 | 1,354,808 |
| Reimbursable items, interchange and assessment expenses | 356,650 | 70,568 | 424,384 | 136,940 |
| Net revenue (h) | 794,937 | 622,084 | 1,466,581 | 1,217,868 |
| Intersegment | 8,089 | 8,461 | 21,045 | 18,098 |
| Segment net revenue | \$ 803,026 | 630,545 | 1,487,626 | 1,235,966 |
| Segment net revenue: | | | | |
| North America Services (i) | \$ 297,168 | 287,199 | 600,809 | 553,418 |
| International Services (j) | 81,771 | 83,857 | 157,125 | 157,587 |
| Merchant Services (k) | 261,467 | 117,868 | 382,079 | 228,266 |
| NetSpend (l) | 162,620 | 141,621 | 347,613 | 296,695 |
| Segment net revenue | \$ 803,026 | 630,545 | 1,487,626 | 1,235,966 |
| Operating margin (GAAP) (a)/(g) | 11.79% | 18.86% | 15.20% | 18.68% |

| | | | | |
|---|-------------------|--------|----------------|---------|
| Adjusted operating margin on net revenue (b)/(h) | 28.6% | 26.6% | 28.2% | 26.3% |
| Adjusted segment operating margin on net revenue: | | | | |
| North America Services (c)/(i) | 37.9% | 37.7% | 39.5% | 38.1% |
| International Services (d)/(j) | 19.3% | 15.9% | 16.6% | 12.9% |
| Merchant Services (e)/(k) | 34.4% | 34.5% | 33.6% | 32.8% |
| NetSpend (f)/(l) | 26.1% | 25.7% | 24.4% | 24.2% |
| Depreciation and amortization | | | | |
| North America Services | \$ 27,442 | 24,468 | 54,925 | 47,532 |
| International Services | 8,207 | 8,628 | 16,343 | 17,406 |
| Merchant Services | 6,806 | 4,446 | 11,856 | 8,723 |
| NetSpend | 3,116 | 2,622 | 6,225 | 4,915 |
| Segment depreciation and amortization | 45,571 | 40,164 | 89,349 | 78,576 |
| Acquisition intangible amortization | 58,486 | 22,852 | 81,407 | 46,718 |
| Corporate Administration and Other | 912 | 889 | 1,796 | 1,426 |
| Total depreciation and amortization | \$ 104,969 | 63,905 | 172,552 | 126,720 |

¹Net revenue and adjusted segment operating income are non-GAAP measures. Net revenue is total revenues less reimbursable items (such as postage), as well as, merchant acquiring interchange and assessment fees charged by the card associations or payment networks that are recorded by TSYS as expense. Adjusted segment operating income excludes acquisition intangible amortization, TransFirst M&A expenses, share-based compensation and expenses associated with Corporate Administration and Other.

Table of Contents*Assets and Revenues by Geographic Area*

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

| <i>(in thousands)</i> | June 30, 2016 | As of December 31, 2015 |
|-----------------------|----------------------|----------------------------|
| United States | \$ 241,971 | 241,814 |
| Europe* | 39,153 | 41,953 |
| Other* | 5,719 | 6,131 |
| Total | \$ 286,843 | 289,898 |

**Property and equipment are impacted by movements in foreign currency exchange rates.*

The following tables reconcile geographic revenues to external revenues by operating segment based on the domicile of the Company's customers:

| <i>(in thousands)</i> | Three months ended June 30, 2016 | | | | |
|-----------------------|---|-----------------------------------|------------------------------|-----------------|---------------------|
| | North America Services | International Services | Merchant Services | NetSpend | Total |
| United States | \$ 263,292 | - | 567,258 | 161,941 | \$ 992,491 |
| Canada* | 73,072 | - | 65 | - | 73,137 |
| Europe* | 200 | 74,960 | - | - | 75,160 |
| Mexico | 2,944 | - | - | - | 2,944 |
| Other* | 4,295 | 3,348 | 212 | - | 7,855 |
| Total | \$ 343,803 | 78,308 | 567,535 | 161,941 | \$ 1,151,587 |

Six months ended June 30, 2016

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| <i>(in thousands)</i> | North America Services | International Services | Merchant Services | NetSpend | Total |
|-----------------------|------------------------------|---------------------------|----------------------|----------|--------------|
| United States | \$ 520,941 | - | 704,978 | 346,139 | \$ 1,572,058 |
| Canada* | 142,922 | - | 130 | - | 143,052 |
| Europe* | 399 | 144,574 | - | - | 144,973 |
| Mexico | 9,029 | - | - | - | 9,029 |
| Other* | 8,460 | 12,987 | 406 | - | 21,853 |
| Total | \$ 681,751 | 157,561 | 705,514 | 346,139 | \$ 1,890,965 |

Three months ended June 30, 2015

| <i>(in thousands)</i> | North America Services | International Services | Merchant Services | NetSpend | Total |
|-----------------------|---------------------------|---------------------------|----------------------|----------|------------|
| United States | \$ 244,882 | - | 137,046 | 141,621 | \$ 523,549 |
| Canada* | 72,360 | - | 22 | - | 72,382 |
| Europe* | 201 | 76,646 | 164 | - | 77,011 |
| Mexico | 4,099 | - | - | - | 4,099 |
| Other* | 4,853 | 10,585 | 173 | - | 15,611 |
| Total | \$ 326,395 | 87,231 | 137,405 | 141,621 | \$ 692,652 |

Six months ended June 30, 2015

| <i>(in thousands)</i> | North America Services | International Services | Merchant Services | NetSpend | Total |
|-----------------------|------------------------------|---------------------------|----------------------|----------|--------------|
| United States | \$ 458,305 | - | 265,847 | 296,695 | \$ 1,020,847 |
| Canada* | 150,169 | - | 228 | - | 150,397 |
| Europe* | 397 | 144,269 | 22 | - | 144,688 |
| Mexico | 8,368 | - | - | - | 8,368 |
| Other* | 9,887 | 20,269 | 352 | - | 30,508 |
| Total | \$ 627,126 | 164,538 | 266,449 | 296,695 | \$ 1,354,808 |

*Revenues are impacted by movements in foreign currency exchange rates.

Major Customers

For the three and six months ended June 30, 2016 and 2015, the Company did not have any major customers.

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Note 8 Supplementary Cash Flow Information

Nonvested Awards

The Company issued shares of common stock to certain key employees during the first six months of 2016 and 2015, respectively. The grants were issued under nonvested stock bonus awards for services to be provided in the future. Refer to Note 5 for more information.

Equipment and Software Acquired Under Capital Lease Obligations

There was approximately \$720,000 of equipment or software acquired under capital lease obligations in the first six months of 2016. The Company acquired equipment and software under capital lease obligations in the amount of \$1.4 million during the first six months of 2015 related to software and other peripheral hardware.

Equipment and Software Acquired Under Direct Financing

The Company did not acquire any equipment or software under direct financing during the first six months of 2016 or 2015.

Note 9 Commitments and Contingencies

Refer to Note 16 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding commitments and contingencies.

Income Taxes

The total liability for uncertain tax positions as of June 30, 2016 was \$14.2 million. Refer to Note 6 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 change related to these obligations within the next twelve months.

Legal Proceedings

General

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 accruals for litigation and similar matters when those matters present loss contingencies that TSYS determines to be both probable and reasonably estimable in accordance with GAAP. In the opinion of management, based on current knowledge and in part upon the advice of legal counsel, all matters not specifically discussed below 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.

Telexfree Matter

ProPay, Inc. (ProPay), a subsidiary of the Company, has been named as one of a number of defendants (including other merchant processors) in several purported class action lawsuits relating to the activities of Telexfree, Inc. and its affiliates and principals. Telexfree is a former merchant customer of ProPay. With regard to Telexfree, each purported class action lawsuit generally alleges that Telexfree engaged in an improper multi-tier marketing scheme involving voice-over Internet protocol telephone services. The plaintiffs in each of the purported class action complaints generally allege that the various merchant processor defendants, including ProPay, aided and abetted the improper activities of Telexfree. Telexfree filed for bankruptcy protection in Nevada. The bankruptcy proceeding was subsequently transferred to the Massachusetts Bankruptcy Court.

Specifically, ProPay has been named as one of a number of defendants (including other merchant processors) in each of the following purported class action complaints relating to Telexfree: (i) Waldermara Martin, et al. v. TelexFree, Inc., et al. (Case No. BK-S-14-12524-ABL) filed on May 3, 2014 in the United States Bankruptcy Court District of Nevada, (ii) Anthony Cellucci, et al. v. TelexFree, Inc., et. al. (Case No. 4:14-BK-40987) filed on May 15, 2014 in the United States Bankruptcy Court District of Massachusetts, (iii) Maduako C. Ferguson Sr., et al. v. Telexelectric, LLLP, et. al (Case No.

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5:14-CV-00316-D) filed on June 5, 2014 in the United States District Court of North Carolina, (iv) Todd Cook v. TelexElectric LLLP et al. (Case No. 2:14-CV-00134), filed on June 24, 2014 in the United States District Court for the Northern District of Georgia, (v) Felicia Guevara v. James M. Merrill et al., CA No. 1:14-cv-22405-DPG), filed on June 27, 2014 in the United State District Court for the Southern District of Florida, and (vi) Reverend Jeremiah Githere, et al. v. TelexElectric LLLP et al. (Case No. 1:14-CV-12825-GAO), filed on June 30, 2014 in the United States District Court for the District of Massachusetts (together, the Actions). On October 21, 2014, the Judicial Panel on Multidistrict Litigation transferred and consolidated the Actions before the United States District Court for the District of Massachusetts (the Consolidated Action).

Following the Judicial Panel on Multidistrict Litigation s October 21, 2014 order, four additional cases arising from the alleged TelexFree scheme were transferred to the United States District Court for the District of Massachusetts for coordinated or consolidated proceedings, including (i) Paulo Eduardo Ferrari et al. v. Telexfree, Inc. et al. (Case No. 14-04080); (ii) Magalhaes v. TelexFree, Inc., et al., No. 14-cv-12437 (D. Mass.); (iii) Griffith v. Merrill et al., No. 14-CV-12058 (D. Mass.); Abelgadir v. Telexelectric, LLP, No. 14-09857 (S.D.N.Y.) In addition, on September 23, 2015, a putative class action relating to TelexFree was filed in the United States District Court for the District of Arizona, styled *Rita Dos Santos, Putative Class Representatives and those Similarly Situated v. TelexElectric, LLLP et al.*, 2:15-cv-01906-NVW (the Arizona Action). The Arizona Action makes claims similar to those alleged in the consolidated action pending before the United States District Court for the District of Massachusetts. On September 29, 2015, a group of certain defendants to the Consolidated Action, including ProPay, filed a tag along notice with the Judicial Panel on Multidistrict Litigation, asking that the Arizona Action be transferred to the District of Massachusetts where it can be consolidated or coordinated with the Consolidated Action. On October 20, 2015, the Judicial Panel on Multidistrict Litigation transferred the Arizona Action to the District of Massachusetts.

The United States District Court for the District of Massachusetts appointed lead plaintiffs counsel on behalf of the putative class of plaintiffs in the Consolidated Action. On March 31, 2015, the plaintiffs filed a First Consolidated Amended Complaint (the Consolidated Complaint). The Consolidated Complaint purports to bring claims on behalf of all persons who purchased certain TelexFree memberships and suffered a net loss between January 1, 2012 and April 16, 2014. The Consolidated Complaint supersedes the complaints filed prior to consolidation of the Actions, and alleges that ProPay aided and abetted tortious acts committed by TelexFree, and that ProPay was unjustly enriched in the course of providing payment processing services to TelexFree. On April 30, 2015, the plaintiffs filed a Second Consolidated Amended Complaint (the Second Amended Complaint), which amends and supersedes the Consolidated Complaint. Like the Consolidated Complaint, the Second Amended Complaint generally alleges that ProPay aided and abetted tortious acts committed by TelexFree, and that ProPay was unjustly enriched in the course of providing payment processing services to TelexFree.

Several defendants, including ProPay, moved to dismiss the Second Amended Complaint on June 2, 2015. Briefing on those motions closed on October 16, 2015. The court held a hearing on the motions to dismiss on November 2, 2015. At present, pursuant to a court order, all discovery in the action is stayed pending the resolution of parallel criminal proceedings against certain former principals of TelexFree, Inc.

ProPay has also received various subpoenas, a seizure warrant and other inquiries requesting information regarding Telexfree from (i) the Commonwealth of Massachusetts, Securities Division, (ii) United States Securities and Exchange Commission, (iii) US Immigration and Customs Enforcement, and (iv) the bankruptcy Trustee of the Chapter 11 entities of Telexfree, Inc., Telexfree, LLC and Telexfree Financial, Inc. Pursuant to the seizure warrant served by the United States Attorney s Office for the District of Massachusetts, ProPay delivered all funds associated with Telexfree held for chargeback and other purposes by ProPay to US Immigration and Customs Enforcement. In addition, ProPay received a notice of potential claim from the bankruptcy Trustee as a result of the relationship of ProPay with Telexfree and its affiliates.

The above proceedings and actions are preliminary in nature. While the Company and ProPay intend to vigorously defend matters arising out of the relationship of ProPay with Telexfree and believe ProPay has substantial defenses related to these purported claims, the Company currently cannot reasonably estimate losses attributable to these matters.

Table of Contents**Note 10 Earnings Per Share**

The following tables illustrate basic and diluted EPS for the three and six months ended June 30, 2016 and 2015:

| <i>(in thousands, except per share data)</i> | Three months ended June 30, | | | |
|---|------------------------------------|-------------------------------------|---------------------|-------------------------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Common Stock | Participating Securities | Common Stock | Participating Securities |
| Basic EPS: | | | | |
| Net income attributable to TSYS common shareholders | \$ 69,708 | | 82,839 | |
| Less income allocated to nonvested awards | (347) | 347 | (724) | 724 |
| Net income allocated to common stock for EPS calculation (a) | \$ 69,361 | 347 | 82,115 | 724 |
| Average common shares outstanding (b) | 183,724 | 934 | 182,204 | 1,625 |
| Basic EPS (a)/(b) | \$ 0.38 | 0.37 | 0.45 | 0.45 |
| Diluted EPS: | | | | |
| Net income attributable to TSYS common shareholders | \$ 69,708 | | 82,839 | |
| Less income allocated to nonvested awards | (346) | 346 | (721) | 721 |
| Net income allocated to common stock for EPS calculation (c) | \$ 69,362 | 346 | 82,118 | 721 |
| Average common shares outstanding | 183,724 | 934 | 182,204 | 1,625 |
| Increase due to assumed issuance of shares related to common equivalent shares outstanding | 874 | | 1,191 | |
| Average common and common equivalent shares outstanding (d) | 184,598 | 934 | 183,395 | 1,625 |
| Diluted EPS (c)/(d) | \$ 0.38 | 0.37 | 0.45 | 0.44 |

| <i>(in thousands, except per share data)</i> | Six months ended June 30, | | | |
|--|----------------------------------|-------------------------------------|---------------------|-------------------------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Common Stock | Participating Securities | Common Stock | Participating Securities |

Basic EPS:

| | | | | | |
|---|----|----------------|-------------|---------|-------|
| Net income attributable to TSYS common shareholders | \$ | 160,336 | | 160,594 | |
| Less income allocated to nonvested awards | | (850) | 850 | (1,437) | 1,437 |
| Net income allocated to common stock for EPS calculation (a) | \$ | 159,486 | 850 | 159,157 | 1,437 |
| Average common shares outstanding (b) | | 183,489 | 989 | 182,487 | 1,667 |
| Basic EPS (a)/(b) | \$ | 0.87 | 0.86 | 0.87 | 0.86 |

Diluted EPS:

| | | | | | |
|---|----|----------------|-------------|---------|-------|
| Net income attributable to TSYS common shareholders | \$ | 160,336 | | 160,594 | |
| Less income allocated to nonvested awards | | (847) | 847 | (1,431) | 1,431 |
| Net income allocated to common stock for EPS calculation (c) | \$ | 159,489 | 847 | 159,163 | 1,431 |
| Average common shares outstanding | | 183,489 | 989 | 182,487 | 1,667 |
| Increase due to assumed issuance of shares related to common equivalent shares outstanding | | 846 | | 1,145 | |
| Average common and common equivalent shares outstanding (d) | | 184,335 | 989 | 183,632 | 1,667 |
| Diluted EPS (c)/(d) | \$ | 0.87 | 0.86 | 0.87 | 0.86 |

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The diluted EPS calculation excludes stock options and nonvested awards that are convertible into 0.2 million and 0.4 million common shares for the three and six months ended June 30, 2016, respectively, and excludes 1.9 million and 2.0 million common shares for the three and six months ended June 30, 2015, respectively, because their inclusion would have been anti-dilutive.

Note 11 Acquisitions

Refer to Note 24 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding acquisitions.

On April 1, 2016, the Company acquired all of the outstanding capital stock of TransFirst for an aggregate purchase price of \$2.35 billion in cash as of the closing, which is subject to certain working capital and other adjustments, as described in the Purchase Agreement. TransFirst previously operated as a privately held company, under the ownership of Vista Equity Partners. The results of the newly acquired business are being reported by TSYS as part of the Merchant Services segment.

The Company funded the cash consideration and the payment of transaction-related expenses through a combination of cash-on-hand and proceeds from debt financings, including proceeds drawn under the Company's Credit Agreement and the proceeds from an issuance of Notes, which together included proceeds of approximately \$2.35 billion.

The goodwill amount of \$1.7 billion arising from the acquisition is primarily attributable to the expansion of customer base, differentiated distribution channels and economies of scale expected from combining the operations of TSYS and TransFirst. All of the goodwill was assigned to TSYS Merchant Services segment. The goodwill recognized is not expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for TransFirst and the preliminary recognized amounts of the identifiable assets acquired and liabilities assumed on April 1, 2016 (the acquisition date). These amounts will remain preliminary until the valuation analysis has been finalized. The measurement period during which changes in assets, liabilities, equity interests, or items of consideration are subject to adjustment ends one year following the acquisition date. The Company continues to evaluate consideration paid, deferred taxes, intangible assets, goodwill and financial liabilities.

(in thousands)

Consideration

| | |
|---|--------------|
| Cash | \$ 2,351,344 |
| Fair value of total consideration transferred | \$ 2,351,344 |

Recognized amounts of identifiable assets acquired and liabilities assumed:

| | |
|--------------------------|----------|
| Cash | \$ 5,906 |
| Accounts receivable, net | 62,313 |

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| | |
|---------------------------------|--------------|
| Property equipment and software | 12,726 |
| Identifiable intangible assets | 816,131 |
| Deferred tax asset | 2,244 |
| Other assets | 7,509 |
| Deferred tax liability | (206,757) |
| Financial liabilities | (56,501) |
| Total identifiable net assets | 643,571 |
| Goodwill | 1,707,773 |
| | \$ 2,351,344 |

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Identifiable intangible assets acquired in the TransFirst acquisition include merchant relationships, channel partners, current technology, the TransFirst trade name, non-compete agreements and a favorable lease. The identifiable intangible assets had no significant estimated residual value. These intangible assets are being amortized over their estimated useful lives of three to ten years based on the pattern of expected future economic benefit, which approximates a straight-line basis over the useful lives of the assets. The fair value of the acquired identifiable intangible assets of \$816.1 million was estimated using the income approach (discounted cash flow and relief from royalty methods) and cost approach. The fair values and useful lives of the identified intangible assets were primarily determined using forecasted cash flows, which included estimates for certain assumptions such as revenues, expenses, attrition rates and royalty rates. The estimated fair value of identifiable intangible assets acquired in the acquisition and the related estimated weighted average useful lives are as follows:

| <i>(in millions)</i> | Fair Value | Weighted Average Useful Life <i>(in years)</i> |
|--|-----------------|--|
| Merchant relationships | \$ 590.0 | 10.0 |
| Channel partners | 121.0 | 10.0 |
| Current technology | 72.0 | 6.0 |
| Trade name | 16.0 | 3.0 |
| Covenants not-to-compete | 15.0 | 4.0 |
| Favorable lease | 2.1 | 5.6 |
| Total acquired identifiable intangible assets | \$ 816.1 | 9.4 |

The fair value measurement of the identifiable intangible assets represents Level 2 and Level 3 measurements as defined by GAAP. Key assumptions include (a) cash flow projections based on market participant and internal data, (b) a discount rate of 8.5%, (c) a pre-tax royalty rate range of 1%-3%, (d) attrition rates of 11%-16%, (e) an effective tax rate of 40%, and (f) a terminal value based on a long-term sustainable growth rate of 3%.

In connection with the acquisition, TSYS incurred \$25.1 million in acquisition-related costs primarily related to professional, legal and accounting costs, which are recorded in selling, general and administrative expenses and \$9.8 million related to the bridge term loan facility, which is included in interest expense. These costs are expensed as incurred and are included on the income statement for the six months ended June 30, 2016.

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Pro Forma Results of Operations

The following unaudited pro forma information shows the results of our operations for the three and six months ended June 30, 2016 and June 30, 2015 as if the merger with TransFirst had occurred on January 1, 2015. The unaudited pro forma information reflects certain pro forma adjustments to the combined historical financial information of TSYS and TransFirst. The pro forma adjustments include incremental amortization and depreciation expense, incremental interest expense associated with new long-term debt, a reduction of revenues and operating expenses associated with contracts existing between the companies and the elimination of nonrecurring transaction costs directly related to the merger.

The unaudited pro forma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the merger had been made as of that date. The unaudited pro forma information is also not intended to be a projection of future results due to the integration of the acquired business.

| | Actual | | Supplemental pro forma | |
|--|--------------------------------|-----------|--------------------------------|-----------|
| | Three months ended June 30, | | Three months ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| <i>(in thousands, except per share data)</i> | | | | |
| Revenue | \$ 1,151,587 | 692,652 | 1,151,587 | 1,080,237 |
| Net income attributable to TSYS common shareholders | \$ 69,708 | 82,839 | 89,588 | 80,111 |
| Basic EPS attributable to TSYS common shareholders | \$ 0.38 | 0.45 | 0.49 | 0.44 |
| Diluted EPS attributable to TSYS common shareholders | \$ 0.38 | 0.45 | 0.49 | 0.44 |
| | Actual | | Supplemental pro forma | |
| | Six months ended June 30, | | Six months ended June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| <i>(in thousands, except per share data)</i> | | | | |
| Revenue | \$ 1,890,965 | 1,354,808 | 2,283,124 | 2,086,367 |
| Net income attributable to TSYS common shareholders | \$ 160,336 | 160,594 | 184,729 | 148,958 |

| | | | | | |
|--|----|-------------|------|-------------|------|
| Basic EPS attributable to TSYS common shareholders | \$ | 0.87 | 0.87 | 1.01 | 0.82 |
| Diluted EPS attributable to TSYS common shareholders | \$ | 0.87 | 0.87 | 1.00 | 0.81 |

The unaudited pro forma financial information presented above does not purport to represent what the actual results of our operations would have been if the acquisition of TransFirst's operations had occurred prior to January 1, 2015, nor is it indicative of the future operating results of TSYS. The unaudited pro forma financial information does not reflect the impact of future events that may occur after the acquisition, including, but not limited to, anticipated cost savings from operating synergies.

The unaudited pro forma financial information presented in the table above has been adjusted to give effect to adjustments that are (1) directly related to the business combination; (2) factually supportable; and (3) expected to have a continuing impact. These adjustments include, but are not limited to, the application of accounting policies; and depreciation and amortization related to fair value adjustments to property, plant and equipment and intangible assets.

The pro forma adjustments do not reflect the following material items that result directly from the acquisition and which impacted our statement of operations following the acquisition:

Acquisition and related financing transaction costs relating to fees to investment bankers, attorneys, accountants, and other professional advisors, and other transaction-related costs that were not capitalized as deferred financing costs; and

The effect of anticipated cost savings or operating efficiencies expected to be realized and related restructuring charges such as technology and infrastructure integration expenses, and other costs related to the integration of TransFirst into TSYS.

In March 2016, the Company completed the acquisition of the remaining 45% interest in TSYS Managed Services EMEA Limited (EMEA) from Merchants Limited. The Company acquired the outstanding stock from Merchants Limited for approximately £4.2 million, or \$5.9 million, in cash. In connection with the purchase, the Company repaid the outstanding balance of the existing debt between EMEA and Merchants Limited of approximately £2.2 million, or \$3.0 million.

Note 12 Subsequent Events

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

Table of Contents**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 global payment processing services to financial and nonfinancial institutions, generally under long-term processing contracts. In addition, the Company derives revenues from providing processing services, acquiring solutions, related systems and integrated support services to merchant acquirers and merchants. The Company also derives revenues by providing general-purpose reloadable (GPR) prepaid debit cards and payroll cards and alternative financial services to underbanked and other consumers. The Company's services are provided through the Company's four operating segments: North America Services, International Services, Merchant Services and NetSpend.

Through the Company's North America Services and International Services segments, TSYS processes information through its cardholder systems for financial and nonfinancial institutions throughout the United States and internationally. The Company's North America Services segment provides these services to clients in the United States, Canada, Mexico and the Caribbean. The Company's International Services segment provides services to clients in Europe, India, Middle East, Africa, Asia Pacific and Brazil. The Company's Merchant Services segment provides merchant services to merchant acquirers and merchants mainly in the United States. The Company's NetSpend segment provides GPR prepaid debit and payroll cards and alternative financial service solutions to the underbanked and other consumers in the United States.

TSYS acquires other companies as part of its strategy for growth. In April 2016, the Company completed the acquisition of all the outstanding stock of TransFirst Holdings Corp. (TransFirst). TransFirst is part of the Merchant Services segment. Refer to Note 11 in the Notes to Unaudited Consolidated Financial Statements for more information about the acquisition of TransFirst.

For a detailed discussion regarding the Company's operations, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, which is included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (SEC).

Management's discussion and analysis contains items prepared in conformity with GAAP, as well as non-GAAP measures. For detailed information and reconciliations to GAAP, refer to the discussion under the caption Non-GAAP Measures.

A summary of the financial highlights for 2016, as compared to 2015, is provided below:

| <i>(in thousands, except per share data)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|--|------------------------------------|---------|-----------------------|----------------------------------|-----------|-----------------------|
| | 2016 | 2015 | Percent Change | 2016 | 2015 | Percent Change |
| Total revenues | \$ 1,151,587 | 692,652 | 66.3 % | \$ 1,890,965 | 1,354,808 | 39.6 % |
| Net revenue ¹ | \$ 794,937 | 622,084 | 27.8 | 1,466,581 | 1,217,868 | 20.4 |
| Operating income | \$ 135,821 | 130,602 | 4.0 | 287,508 | 253,098 | 13.6 |
| | \$ 69,708 | 82,839 | (15.9) | 160,336 | 160,594 | (0.2) |

| | | | | | | | | |
|--|----|----------------|---------|---------------|----------------|----------------|-------------|-------------|
| Net income attributable to TSYS common shareholders | | | | | | | | |
| Basic earnings per share (EPS) attributable to TSYS common shareholders | \$ | 0.38 | 0.45 | (15.8) | 0.87 | 0.87 | 0.2 | |
| Diluted EPS attributable to TSYS common shareholders | \$ | 0.38 | 0.45 | (15.7) | 0.87 | 0.87 | 0.4 | |
| Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) ² | \$ | 274,032 | 206,537 | 32.7 | 504,862 | 399,991 | 26.2 | |
| Adjusted EPS ³ | \$ | 0.74 | 0.58 | 27.9 | 1.40 | 1.11 | 25.5 | |
| Cash flows from operating activities | | | | | \$ | 338,961 | 285,293 | 18.8 |
| Free cash flow ⁴ | | | | | \$ | 257,154 | 188,741 | 36.2 |

Refer to the reconciliation of GAAP to non-GAAP measures later in Item 2.

¹Net revenue is total revenues less reimbursable items (such as postage), as well as, merchant acquiring, interchange and assessment fees charged by the card associations or payment networks that are recorded by TSYS as expense.

²Adjusted EBITDA is net income, excluding equity in income of equity investments, nonoperating income/(expense), income taxes, depreciation, amortization, share-based compensation expenses and other items.

³Adjusted EPS is adjusted earnings divided by weighted average shares outstanding used for basic EPS calculations. Adjusted earnings is net income excluding noncontrolling interests, the after-tax impact of share-based compensation expenses, amortization of acquisition intangibles and other items.

⁴Free cash flow is net cash provided by operating activities less capital expenditures.

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Below is a summary of accounts on file (AOF) for the Company's North America Services and International Services segments:

| <i>(in millions)</i> | As of June 30, | | |
|---|-----------------------|-------|-----------------------|
| AOF | 2016 | 2015 | Percent Change |
| Consumer | 425.3 | 400.5 | 6.2 % |
| Commercial | 47.0 | 44.0 | 7.1 |
| Other | 28.8 | 24.0 | 19.6 |
| Traditional AOF ¹ | 501.1 | 468.5 | 7.0 |
| Prepaid/Stored Value ² | 79.5 | 133.1 | (40.3) |
| Government Services ³ | 84.6 | 77.1 | 9.8 |
| Commercial Card Single-Use ⁴ | 76.9 | 72.7 | 5.8 |
| Total AOF | 742.1 | 751.4 | (1.2) % |

¹Traditional accounts include consumer, retail, commercial, debit and other accounts. These accounts are grouped together due to the tendency to have more transactional activity than prepaid, government services and single-use accounts.

²Prepaid does not include NetSpend accounts. These accounts tend to have less transactional activity than the traditional accounts. Prepaid and stored value cards are issued by firms through retail establishments to be purchased by consumers to be used at a later date. These accounts tend to be the least active of all accounts on file.

³Government services accounts are disbursements of student loan accounts issued by the Department of Education, which have minimal activity.

⁴Commercial card single-use accounts are one-time use accounts issued by firms to book lodging and other travel related expenses.

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. For a detailed discussion regarding these topics, refer to our Notes to Consolidated Financial Statements and Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

Critical Accounting Policies and Estimates

Refer to Note 1 in the Notes to Unaudited Consolidated Financial Statements for more information on changes to the Company's critical accounting policies, estimates and assumptions or the judgments affecting the application of those estimates and assumptions in 2016.

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.

In March 2016, the Company purchased the remaining 45% interest in TSYS Managed Services EMEA Limited (EMEA). Refer to Note 11 in the Notes to Unaudited Consolidated Financial Statements for more information on acquisitions.

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.

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Contractual Obligations

The total liability for uncertain tax positions under GAAP as of June 30, 2016 is \$14.2 million. Refer to Note 6 in the Notes to Unaudited 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, as of this time, the Company does not expect a significant change related to these obligations within the next twelve months.

Additionally, the Company has long-term obligations which consist of required minimum future payments under contracts with our distributors and other service providers for the NetSpend segment.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, refer to Note 1 in the Notes to Unaudited Consolidated Financial Statements and see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, which is included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

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 processed 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 its clients 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 66.3% and 39.6%, respectively, for the three and six months ended June 30, 2016, compared to the same periods in 2015. The impact of the acquisition of TransFirst on total revenues for both the three and six months ended June 30, 2016 was \$418.8 million. The increases in revenues for the three and six months ended June 30, 2016 also include decreases of \$6.0 million and \$11.6 million related to the effects of currency translation of foreign-based subsidiaries and branches.

The Company reviews revenue performance on a net revenue basis which is a non-GAAP measure. Net revenue is defined as total revenues less reimbursable items, as well as, merchant acquiring, interchange and assessment fees charged by the card associations or payment networks that are recorded by TSYS as expense. The Company has included reimbursements received for out-of-pocket expenses as revenues and expenses. The largest reimbursable expense items for which TSYS is reimbursed by clients are postage and network association fees. The Company's reimbursable items are impacted by changes in postal rates and changes in the volumes of mailing activities by its clients. Reimbursable items for the three and six months ended June 30, 2016 were \$66.1 million and \$133.9 million, decreases of 6.3% and 2.2%, respectively, compared to the same periods last year. Interchange and assessment expenses for both the three and six months ended June 30, 2016 was \$290.5 million.

Net revenue increased \$172.9 million and \$248.7 million, or 27.8% and 20.4%, during the three and six months ended June 30, 2016, compared to the same periods in 2015. The increase in net revenue for the three and six months ended

June 30, 2016, as compared to the same periods in 2015, are largely the result of the acquisition of TransFirst in April 2016, as well as organic growth, partially offset by decreases of \$5.6 million and \$10.9 million associated with currency translation.

Major Customers

For discussion regarding the Company's major customers, refer to Note 7 in the Notes to Unaudited Consolidated Financial Statements and see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, which is included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

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The Company works to maintain a large and diverse customer base across various industries. For the three and six months ended June 30, 2016, the Company does not have a major customer on a consolidated basis. However, a significant amount of the Company's revenues are derived from long-term contracts with large clients. 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 one of the Company's large clients could have a material adverse effect on the Company's financial position, results of operations and cash flows.

Operating Segments

TSYS services are provided through four operating segments: North America Services, International Services, Merchant Services and NetSpend. Refer to Note 7 in the Notes to Unaudited Consolidated Financial Statements for more information on the Company's operating segments and reconciliations to non-GAAP measures.

Issuing Services – North America Services and International Services

The Company's North America Services and International Services 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 segments with a steady revenue stream since a vast majority of the contracts are honored through the contracted expiration date.

These services are provided throughout the period of each account's use, starting from a card-issuing client processing an application for a card. Services may include processing the card application, initiating service for the cardholder, processing each card transaction for the issuing retailer or financial institution and accumulating the account's transactions. Fraud management services monitor the unauthorized use of accounts which have been reported to be lost, stolen, or which exceed credit limits. Fraud detection systems help identify fraudulent transactions by monitoring each account holder's purchasing patterns and flagging unusual purchases. Other services provided include customized communications to cardholders, information verification associated with granting credit, debt collection and customer service.

TSYS revenues in its North America Services and International Services segments are primarily derived from electronic payment processing. There are certain basic core services directly tied to accounts on file (AOF) and transactions. These are provided to all of TSYS processing clients. The core services begin with an AOF.

The core services include housing an AOF, authorizing transactions (authorizations), accumulating monthly transactional activity (transactions) and providing a monthly statement (statement generation). From these core services, TSYS clients also have the option to use fraud and portfolio management services. Collectively, these services are considered volume-based revenues.

Non-volume related revenues include processing fees which are not directly associated with AOF and transactional activity, such as certain value added products and services, custom programming and certain other services, which are only offered to TSYS processing clients.

Additionally, certain clients license the Company's processing systems and process in-house. Since the accounts are processed outside of TSYS for licensing arrangements, the AOF and other volumes are not available to TSYS. Thus, volumes reported by TSYS do not include volumes associated with licensing.

Output and managed services include offerings such as card production, statement production, correspondence and call center support services.

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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. Growth in revenues and operating profit in this segment is derived from retaining and growing the core business and improving the overall cost structure. 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 two major customers for the three and six months ended June 30, 2016.

Below is a summary of the North America Services segment:

| <i>(in thousands)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|--|------------------------------------|---------|---------------------------|----------------------------------|---------|---------------------------|
| | 2016 | 2015 | Percent Change | 2016 | 2015 | Percent Change |
| Volume-based revenues | \$ 156,300 | 150,508 | 3.8 % | \$ 308,782 | 286,998 | 7.6 % |
| Non-volume related revenues: | | | | | | |
| Processing fees | 59,652 | 59,725 | (0.1) | 119,208 | 117,556 | 1.4 |
| Value-added, custom programming, licensing and other | 37,539 | 37,738 | (0.5) | 83,200 | 72,461 | 14.8 |
| Output and managed services | 43,677 | 39,228 | 11.3 | 89,619 | 76,403 | 17.3 |
| Total non-volume related revenues | 140,868 | 136,691 | 3.1 | 292,027 | 266,420 | 9.6 |
| Net revenue | \$ 297,168 | 287,199 | 3.5 | \$ 600,809 | 553,418 | 8.6 |
| Total revenues | \$ 343,432 | 333,844 | 2.9 | \$ 693,058 | 643,077 | 7.8 |
| Adjusted segment operating income ¹ | \$ 112,737 | 108,385 | 4.0 | \$ 237,525 | 210,956 | 12.6 |
| Adjusted segment operating margin ² | 37.9 % | 37.7 % | | 39.5 % | 38.1 % | |
| Key indicators <i>(in millions)</i> : | | | | | | |
| AOF | | | | 660.9 | 677.5 | (2.5) |

| | | | | | | |
|-----------------|----------------|---------|------------|----------------|---------|-------------|
| Traditional AOF | | | | 435.1 | 405.4 | 7.3 |
| Transactions | 4,326.6 | 4,042.2 | 7.0 | 8,296.2 | 7,353.0 | 12.8 |

¹Adjusted segment operating income excludes acquisition intangible amortization and expenses associated with Corporate Administration and Other.

²Adjusted segment operating margin equals adjusted segment operating income divided by net revenue.

For the three and six months ended June 30, 2016, respectively, approximately 52.6% and 51.4% of net revenue was driven by the volume of AOF and transactions processed and approximately 47.4% and 48.6% was derived from non-volume based revenues, such as processing fees, value-added products and services, custom programming and licensing arrangements.

The increases in net revenue and total segment revenues for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, are driven by organic growth.

During the first quarter of 2015, two of the Company's largest prepaid processing clients in the North America Services segment informed TSYS that they did not intend to renew their prepaid processing agreements. The revenues associated with these clients, in the aggregate, accounted for approximately 2% of the Company's total consolidated revenues in the first six months of 2015. One of the deconversions was completed in early October 2015. The other is expected to be completed during the first half of 2017.

The increases in adjusted segment operating income for the three and six months ended June 30, 2016, respectively, as compared to 2015, are driven by increases in revenues, partially offset by increases in technology and facilities expenses and other expenses.

International Services

The International Services segment provides issuer and acquirer 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 two major customers for the three and six months ended June 30, 2016.

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Below is a summary of the International Services segment:

| <i>(in thousands)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|--------|----------------|---------------------------|---------|----------------|
| | 2016 | 2015 | Percent Change | 2016 | 2015 | Percent Change |
| Volume-based revenues | \$ 30,254 | 30,330 | (0.3) % | \$ 59,454 | 59,283 | 0.3 % |
| Non-volume related revenues: | | | | | | |
| Processing fees | 15,566 | 15,842 | (1.7) | 29,870 | 30,600 | (2.4) |
| Value-added, custom programming, licensing and other | 20,874 | 21,684 | (3.7) | 38,044 | 40,187 | (5.3) |
| Output and managed services | 15,077 | 16,001 | (5.8) | 29,757 | 27,517 | 8.1 |
| Total non-volume related revenues | 51,517 | 53,527 | (3.8) | 97,671 | 98,304 | (0.6) |
| Net revenue | \$ 81,771 | 83,857 | (2.5) | \$ 157,125 | 157,587 | (0.3) |
| Total revenues | \$ 87,509 | 89,618 | (2.4) | \$ 168,582 | 169,420 | (0.5) |
| Adjusted segment operating income ¹ | \$ 15,751 | 13,353 | 18.0 | \$ 26,040 | 20,336 | 28.0 |
| Adjusted segment operating margin ² | 19.3 % | 15.9 % | | 16.6 % | 12.9 % | |
| Key indicators <i>(in millions)</i> : | | | | | | |
| AOF | | | | 81.3 | 73.9 | 10.0 |
| Traditional AOF | | | | 66.0 | 63.1 | 4.7 |
| Transactions | 658.5 | 613.9 | 7.3 | 1,276.9 | 1,185.9 | 7.7 |

¹Adjusted segment operating income excludes acquisition intangible amortization and expenses associated with Corporate Administration and Other.

²Adjusted segment operating margin equals adjusted segment operating income divided by net revenue.

For the three and six months ended June 30, 2016, respectively, approximately 37.0% and 37.8% of net revenue was driven by the volume of AOF and transactions processed and approximately 63.0% and 62.2% was derived from

non-volume based revenues, such as processing fees, value-added products and services, custom programming and licensing arrangements.

Net revenue decreased for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015 primarily due to decreases of \$5.6 million and \$10.8 million associated with currency translation.

Total segment revenues for the three and six months ended June 30, 2016, as compared to the same periods in 2015, include decreases of \$6.0 million and \$11.6 million associated with currency translation.

The increases in adjusted segment operating income for the three and six months ended June 30, 2016, as compared to 2015, are driven primarily by decreases in costs of services, partially offset decreases in non-volume related revenues.

Movements in foreign currency exchange rates as compared to the U.S. Dollar can result in foreign denominated financial statements being translated into more or fewer U.S. Dollars, which impacts the comparison to prior periods when the U.S. Dollar was stronger or weaker.

Merchant Services

The Merchant Services segment provides merchant processing and related services to clients based primarily in the United States. Merchant Services processing and related 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 (POS) equipment sales and service. This segment has no major customers for the three and six months ended June 30, 2016.

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Below is a summary of the Merchant Services segment:

| <i>(in thousands)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|--|-----------------------------|----------|------------------------|---------------------------|----------|------------------------|
| | 2016 | 2015 | Percent Change nm % | 2016 | 2015 | Percent Change nm % |
| Net revenue | \$ 261,467 | 117,868 | | \$ 382,079 | 228,266 | 67.4 % |
| Total revenues | \$ 567,582 | 137,472 | nm | \$ 705,611 | 266,576 | nm |
| Adjusted segment operating income ¹ | \$ 89,915 | 40,690 | nm | \$ 128,272 | 74,805 | 71.5 |
| Adjusted segment operating margin ² | 34.4 % | 34.5 % | | 33.6 % | 32.8 % | |
| Key indicators <i>(in millions)</i> : | | | | | | |
| POS transactions | 1,159.5 | 1,089.4 | 6.4 | 2,250.4 | 2,074.0 | 8.5 |
| Dollar sales volume | \$ 28,560.8 | 12,314.8 | nm | \$ 40,344.2 | 23,616.4 | 70.8 |
| nm = not meaningful | | | | | | |

¹Adjusted segment operating income excludes acquisition intangible amortization and expenses associated with Corporate Administration and Other.

²Adjusted segment operating margin equals adjusted segment operating income divided by net revenue.

Merchant Services segment total revenues are reported net of certain merchant acquiring interchange and assessment fees charged by the card associations or payment networks. The segment also includes revenue classified as reimbursable items as the costs are passed through to, and paid by, TSYS clients. With the acquisition of TransFirst in April 2016, TSYS includes TransFirst's results as part of the Merchant Services segment. TransFirst's revenues are reported gross, which includes amounts paid for interchange and assessments as TransFirst is the principal in the contractual relationship with its customers. Included in TransFirst's cost of services are the expenses covering interchange and assessment fees directly attributable to processing fee revenues and are recognized in cost of services in the same period as the related revenue.

The Merchant Services segment's results are driven by dollar sales volume and the authorization and capture transactions processed at the POS. This segment's authorization and capture transactions are primarily through Internet connectivity.

For the three and six months ended June 30, 2016, respectively, approximately 94.7% and 93.7% of net revenue was influenced by several factors, including volumes related to transactions and dollar sales volume. The remaining 5.3% and 6.3% was derived from value added services, chargebacks, managed services, investigation, risk and collection services performed.

The increases in net revenue, total segment revenues, and adjusted segment operating income for the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, are driven by higher processing volumes, product fees and processing fees primarily due to the acquisition of TransFirst.

NetSpend

The NetSpend segment is a program manager for FDIC-insured depository institutions that issue GPR cards and payroll cards and provide alternative financial services to underbanked and other consumers in the United States. The products within this segment provide underbanked consumers with access to FDIC-insured depository accounts with a menu of pricing and features specifically tailored to their needs. This segment has an extensive distribution and reload network comprised of financial service centers, employers and retail locations throughout the United States. The NetSpend segment markets prepaid cards through multiple distribution channels, including direct-to-consumer and online marketing programs, alternative financial service providers, traditional retailers and contractual relationships with corporate employers. This segment has no major customers for the three and six months ended June 30, 2016. NetSpend's prepaid card business derived more than one-fourth of its revenues from cardholders acquired through its two major third-party distributors for the three and six months ended June 30, 2016.

The NetSpend segment's revenues primarily consist of a portion of the service fees and interchange revenues received by NetSpend's prepaid card Issuing Banks in connection with the programs managed by this segment. Cardholders are charged fees for transactions including fees for PIN and signature-based purchase transactions made using their prepaid cards, for Automated Teller Machine (ATM) withdrawals or other transactions conducted at ATMs, for balance inquiries, and monthly maintenance fees among others. Cardholders are also charged fees associated with additional products and services offered in connection with certain cards including the use of overdraft features, bill payment options, custom card designs and card-to-card transfers of funds initiated through call centers. The NetSpend segment also earns revenues from a portion of the interchange fees remitted by merchants when cardholders make purchase transactions using their cards. Subject to applicable law, interchange fees are fixed by card associations and network organizations.

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Below is a summary of the NetSpend segment:

| <i>(in thousands)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|---------|----------------|---------------------------|----------|----------------|
| | 2016 | 2015 | Percent Change | 2016 | 2015 | Percent Change |
| Total revenues (and net revenue) | \$ 162,620 | 141,621 | 14.8 % | \$ 347,613 | 296,695 | 17.2 % |
| Adjusted segment operating income ¹ | \$ 42,481 | 36,442 | 16.6 | \$ 84,682 | 71,909 | 17.8 |
| Adjusted segment operating margin ² | 26.1 % | 25.7 % | | 24.4 % | 24.2 % | |
| Key indicators <i>(in millions)</i> : | | | | | | |
| Number of active cards ³ | | | | 4.4 | 3.9 | 14.5 |
| Number of active cards with direct deposit ⁴ | | | | 2.2 | 1.9 | 16.6 |
| Percentage of active cards with direct deposit | | | | 49.3 % | 48.4 % | |
| Gross dollar volume ⁵ | \$ 6,614.7 | 5,531.0 | 19.6 | \$ 15,776.2 | 13,191.7 | 19.6 |

¹Adjusted segment operating income excludes acquisition intangible amortization and expenses associated with Corporate Administration and Other.

²Adjusted segment operating margin equals adjusted segment operating income divided by net revenue.

³Number of active cards represents the total number of prepaid cards that have had a PIN or signature-based purchase transaction, a point-of-sale load transaction or an ATM withdrawal within three months of the date of determination.

⁴Number of active cards with direct deposit represents the number of active cards that have had a direct deposit load within three months of the date of determination.

⁵Gross dollar volume represents the total dollar volume of debit transactions and cash withdrawals made using prepaid cards.

For the three and six months ended June 30, 2016, respectively, 71.7% and 69.7% of revenues were derived from service fees charged to cardholders and 28.3% and 30.3% of revenues were derived from interchange and other revenues. Service fee revenues are driven by the number of active cards, which totaled approximately 4.4 million as of June 30, 2016, and in particular by the number of cards with direct deposit. Cardholders with direct deposit generally initiate more transactions and generate more revenues than those that do not take advantage of this feature. Interchange revenues are driven by gross dollar volume, which totaled approximately \$6.6 billion and \$15.8 billion, respectively, for the three and six months ended June 30, 2016. Substantially all of the NetSpend segment's revenues are volume driven as they are driven by the active card and gross dollar volume indicators.

Total segment revenues for the three and six months ended June 30, 2016, as compared to the same periods in 2015, increased \$21.0 million and \$50.9 million, respectively. Service fee revenue increased \$17.6 million and \$38.8 million, or 17.8% and 19.1%, respectively. Revenues from interchange and other services increased \$3.4 million and \$12.1 million, or 7.9% and 13.0%, respectively. These increases were substantially driven by the increase in the number of active cards and gross dollar volume during the three and six months ended June 30, 2016.

Cardholder funds and deposits related to NetSpend's prepaid products are held at FDIC-insured Issuing Banks for the benefit of the cardholders. NetSpend currently has active agreements with six Issuing Banks.

Operating Expenses

The Company's operating expenses were \$1.0 billion and \$1.6 billion for the three and six months ended June 30, 2016, respectively, compared to \$562.1 million and \$1.1 billion for the same periods in 2015. 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 the Company's customers, including the cost of reimbursable items and direct labor expense in putting 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, sales, investor relations and mergers and acquisitions.

Operating expenses for the three and six months ended June 30, 2016 were also impacted by the TransFirst acquisition. Operating expenses increased \$436.2 million due to the acquisition of TransFirst in 2016.

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The Company's cost of services were \$837.7 million and \$1.3 billion for the three and six months ended June 30, 2016, respectively, which were increases of 82.1% and 44.9%, respectively, compared to the same periods last year. The increases in cost of services are due to increases in employment, technology and facilities and other costs to support revenue growth and the acquisition of TransFirst. The Company's selling, general and administrative expenses were \$178.1 million and \$285.2 million for the three and six months ended June 30, 2016, respectively, which were increases of 74.5% and 48.5%, respectively, compared to the same periods last year.

The Company's transaction and integration expenses related to the acquisition of TransFirst in 2016 were \$25.1 million for the three and six months ended June 30, 2016. These expenses consist of costs related to the completion of the acquisition such as legal, accounting and professional fees, as well as, personnel costs for severance and retention.

Operating Income

Operating income increased 4.0% and 13.6%, respectively, for the three and six months ended June 30, 2016, compared to the same periods in 2015. The Company's operating profit margins for the three and six months ended June 30, 2016, respectively, were 11.8% and 15.2%, compared to 18.9% and 18.7% for the same periods last year. TSYS' operating margins decreased for the three and six months ended June 30, 2016, as compared to the same periods in 2015, due primarily to the increase in merger and acquisition expenses, partially offset by an increase in revenues from the acquisition of TransFirst as well as payment processing and general purpose reloadable cards.

Nonoperating Income (Expense)

Nonoperating income (expense) consists of interest income, interest expense, gains and losses on currency transactions and gains and losses on investments in private equity. Net nonoperating expense increased for the three and six months ended June 30, 2016, as compared to the same periods in 2015.

The following table provides a summary of nonoperating expenses, net:

| <i>(in thousands)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|----------|----------------|---------------------------|-------------|----------------|
| | 2016 | 2015 | Percent change | 2016 | 2015 | Percent Change |
| Interest expense ¹ | \$ (31,189) | (10,179) | nm | \$ (53,975) | (20,394) | nm |
| Interest income | 419 | 452 | (7.2) % | 910 | \$ 700 | 29.9 % |
| Currency transaction gains (losses), net | 960 | (507) | nm | 1,469 | (910) | nm |
| Net (losses) gains on investments in private equity | (301) | 227 | nm | (643) | 1,279 | nm |
| Other | 50 | (202) | nm | (262) | (93) | nm |
| Total | \$ (30,061) | (10,209) | nm | \$ (52,501) | \$ (19,418) | nm |

¹Interest expense includes interest on bonds of \$25.4 million and \$36.6 million, respectively, for the three and six months ended June 30, 2016 and \$8.8 million and \$17.6 million for the same periods in 2015.

Interest expense for the three and six months ended June 30, 2016, respectively, increased \$21.0 million and \$33.6 million compared the same periods in 2015. The increases in interest expense in 2016 compared to 2015 are due primarily to increases in bond interest expense in connection with the acquisition of TransFirst in April 2016.

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 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. 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.

The balance of the Company's foreign-denominated cash accounts subject to risk of translation gains or losses as of June 30, 2016, was approximately \$5.0 million, the majority of which is denominated in U.S. Dollars and Euros. The net asset account balance subject to foreign currency exchange rates between the local currencies and the U.S. Dollar as of June 30, 2016 was \$22.4 million.

Table of Contents**Income Taxes**

For a detailed discussion regarding income taxes, refer to Notes 1 and 6 in the Notes to Consolidated Financial Statements and Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

Below is a summary of income tax expense:

| <i>(in thousands)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|---------------------------|------------------------------------|--------|-----------------------|----------------------------------|--------|-----------------------|
| | 2016 | 2015 | Percent change | 2016 | 2015 | Percent Change |
| Income tax expense | \$ 40,290 | 41,597 | (3.1) % | \$ 83,719 | 81,379 | 2.9 % |
| Effective income tax rate | 38.1 % | 34.6 % | | 35.6 % | 34.8 % | |

The primary differences in the 2016 rates compared to 2015 rates reflect changes in federal tax credits and changes in discrete items realized during the three and six months ended June 30, 2016. Additionally, there were changes in permanent items during the six months ended June 30, 2016.

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 income taxes has been made in the Company's consolidated financial statements for those non-U.S. subsidiaries whose earnings are considered to be permanently reinvested. The amount of undistributed earnings considered to be reinvested which may be subject to tax upon distribution was approximately \$84.6 million as of June 30, 2016. 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

Below is a summary of TSYS' share of income from its interest in equity investments:

Three months ended June 30,

Six months ended June 30,

| <i>(in thousands)</i> | 2016 | 2015 | Percent change | 2016 | 2015 | Percent Change |
|--|-----------------|-------|---------------------------|------------------|-------|---------------------------|
| Equity in income of equity investments | \$ 6,278 | 4,579 | 37.1 % | \$ 12,868 | 9,973 | 29.0 % |

The increases in equity income for the three and six months ended June 30, 2016, compared to the same periods in 2015, are the result of organic growth associated with the operations of CUP Data.

Table of Contents**Net Income**

The following table provides a summary of net income and EPS:

| <i>(in thousands, except per share data)</i> | Three months ended June 30, | | | Six months ended June 30, | | |
|---|------------------------------------|--------|-----------------------|----------------------------------|---------|-----------------------|
| | 2016 | 2015 | Percent change | 2016 | 2015 | Percent Change |
| Net income | \$ 71,748 | 83,375 | (13.9) % | \$ 164,156 | 162,274 | 1.2 % |
| Net income attributable to noncontrolling interests | (2,040) | (536) | nm | (3,820) | (1,680) | nm |
| Net income attributable to TSYS common shareholders | \$ 69,708 | 82,839 | (15.9) | \$ 160,336 | 160,594 | (0.2) |
| Basic EPS attributable to TSYS common shareholders ¹ | \$ 0.38 | 0.45 | (15.8) | \$ 0.87 | 0.87 | 0.2 |
| Diluted EPS attributable to TSYS common shareholders ¹ | \$ 0.38 | 0.45 | (15.7) | \$ 0.87 | 0.87 | 0.4 |

¹Basic and diluted EPS is computed based on the two-class method in accordance with the guidance under GAAP. Refer to Note 10 for more information.

Non-GAAP Measures

Management evaluates the Company's operating performance based upon operating margin on a net revenue basis, adjusted EBITDA, segment operating margin and consolidated adjusted operating margin, adjusted EPS and free cash flow which are all non-generally accepted accounting principles (non-GAAP) measures. TSYS also uses these non-GAAP financial measures to evaluate and assess TSYS' financial performance against budget.

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 measures of other companies due to potential inconsistencies in the method of calculation.

TSYS believes that its use of non-GAAP financial measures provides investors with important key financial performance indicators that are utilized by management to assess TSYS' operating results, evaluate the business and make operational decisions on a prospective, going-forward basis. Hence, management provides disclosure of non-GAAP financial measures to give shareholders and potential investors an opportunity to see TSYS as viewed by management, to assess TSYS with some of the same tools that management utilizes internally and to be able to compare such information with prior periods. TSYS believes that inclusion of non-GAAP financial measures provides investors with additional information to help them better understand its financial statements just as management

utilizes these non-GAAP financial measures to better understand the business, manage budgets and allocate resources.

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The following tables provide a reconciliation of GAAP to the Company's non-GAAP financial measures:

Net Revenue and Operating Margin on a Net Revenue Basis

| <i>(in thousands)</i> | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|---------|------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Operating income (a) | \$ 135,821 | 130,602 | 287,508 | 253,098 |
| Total revenues (b) | \$ 1,151,587 | 692,652 | 1,890,965 | 1,354,808 |
| Less reimbursable items, interchange and assessment expenses | 356,650 | 70,568 | 424,384 | 136,940 |
| Net revenue (c) | \$ 794,937 | 622,084 | 1,466,581 | 1,217,868 |
| Operating margin (as reported) (a)/(b) | 11.79 % | 18.86 % | 15.20 % | 18.68 % |
| Operating margin on a net revenue basis (a)/(c) | 17.09 % | 20.99 % | 19.60 % | 20.78 % |

Adjusted EBITDA

| <i>(in thousands)</i> | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 71,748 | 83,375 | 164,156 | 162,274 |
| Adjust for: | | | | |
| Deduct: Equity in income of equity investments | (6,278) | (4,579) | (12,868) | (9,973) |
| Add: Income taxes | 40,290 | 41,597 | 83,719 | 81,379 |
| Add: Nonoperating expense | 30,061 | 10,209 | 52,501 | 19,418 |
| Add: Depreciation and amortization | 104,969 | 63,905 | 172,552 | 126,720 |
| EBITDA | 240,790 | 194,507 | 460,060 | 379,818 |
| Adjust for: | | | | |
| Add: Share-based compensation | 12,566 | 12,030 | 20,724 | 20,173 |
| Add: TransFirst M&A expenses ¹ | 20,676 | - | 24,078 | - |
| Adjusted EBITDA | \$ 274,032 | 206,537 | 504,862 | 399,991 |

¹Costs associated with the TransFirst acquisition which are included in selling, general and administrative expenses and nonoperating expenses.

Table of Contents**Adjusted Earnings Per Share**

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| <i>(in thousands, except per share data)</i> | | | | |
| Income from continuing operations attributable to TSYS common shareholders, as reported (GAAP) | \$ 69,708 | 82,839 | 160,336 | 160,594 |
| Adjust for amounts attributable to TSYS common shareholders: | | | | |
| Add: Acquisition intangible amortization | 58,210 | 22,576 | 80,855 | 46,167 |
| Add: Share-based compensation | 12,557 | 12,024 | 20,707 | 20,167 |
| Add: TransFirst M&A expenses ¹ | 20,676 | - | 33,859 | - |
| Less: Tax impact of adjustments ² | (25,735) | (11,484) | (39,631) | (22,016) |
| Adjusted earnings | \$ 135,416 | 105,955 | 256,126 | 204,912 |
| Basic EPS - Income from continuing operations attributable to TSYS common shareholders, as reported (GAAP) | \$ 0.38 | 0.45 | 0.87 | 0.87 |
| Adjusted EPS | \$ 0.74 | 0.58 | 1.40 | 1.11 |
| Average common shares and participating securities | 183,724 | 183,829 | 183,489 | 184,153 |

¹ Costs associated with the TransFirst acquisition which are included in selling, general and administrative expenses and nonoperating expenses.

² Certain of these merger and acquisition costs are nondeductible for income tax purposes. Income tax impact includes a discrete item as a result of the acquisition.

Free Cash Flow

Six months ended June 30,

| <i>(in thousands)</i> | 2016 | 2015 |
|---|-------------------|----------|
| Net cash provided by operating activities | \$ 338,961 | 285,293 |
| Capital expenditures | (81,807) | (96,552) |
| Free cash flow | \$ 257,154 | 188,741 |

Financial Position, Liquidity and Capital Resources**Cash Flows**

The 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. TSYS has occasionally used borrowed funds to supplement financing of capital expenditures and acquisitions. For more information regarding borrowings, refer to Note 4 in the Notes to Unaudited Consolidated Financial Statements.

Table of Contents***Cash Flows From Operating Activities***

| <i>(in thousands)</i> | Six months ended June 30, | |
|--|----------------------------------|-------------|
| | 2016 | 2015 |
| Net income | \$ 164,156 | 162,274 |
| Depreciation and amortization | 172,552 | 126,720 |
| Provisions for fraud and other losses | 25,216 | 20,210 |
| Deferred income tax expense (benefit) | 18,519 | (12,954) |
| Amortization of debt issuance costs | 11,451 | 917 |
| Other noncash items and charges, net | 13,247 | 16,481 |
| Excess tax benefit from share-based payment arrangements | (8,034) | (4,106) |
| Net change in current and other assets and current and other liabilities | (58,146) | (24,249) |
| Net cash provided by operating activities | \$ 338,961 | 285,293 |

TSYS main source of funds is derived from operating activities, specifically net income. The change in depreciation and amortization is mainly the result of the acquisition of TransFirst. Net change in current and other assets and current and other liabilities includes 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 as of June 30, 2016, as compared to June 30, 2015, is the result of timing of collections as well as increased 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. The change in accrued salaries and employee benefits is due primarily to an increase in incentive bonuses and benefits paid in the first six months of 2016 compared to the same period in 2015.

Cash Flows From Investing Activities

| <i>(in thousands)</i> | Six months ended June 30, | |
|--|----------------------------------|-------------|
| | 2016 | 2015 |
| Cash used in acquisitions, net of cash acquired | \$ (2,345,438) | - |
| Additions to contract acquisition costs | (31,276) | (40,094) |
| Purchases of property and equipment, net | (20,669) | (22,454) |
| Additions to internally developed computer software | (18,484) | (20,869) |
| Additions to licensed computer software from vendors | (11,379) | (13,134) |
| Purchase of private equity investments | (1,730) | (2,800) |
| Proceeds from sale of private equity investment | 120 | 1,839 |
| Net cash used in investing activities | \$ (2,428,856) | (97,512) |

The primary use of cash for investing activities in 2016 was for the acquisition of TransFirst. Other major uses of cash for investing activities in 2016 and 2015 were for additions to contract acquisition costs, addition of property and equipment, internal development of computer software and the purchase of licensed computer software.

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 clients to the Company's processing systems. The Company's investments in contract acquisition costs were \$31.3 million, including \$20.5 million of client incentives, for the six months ended June 30, 2016, compared to \$40.1 million for the six months ended June 30, 2015.

Private Equity Investments

The Company has entered into limited partnership agreements in connection with investing in two Atlanta-based venture capital funds focused exclusively on investing in technology-enabled financial services companies. Pursuant to each limited partnership agreement, the Company has committed to invest up to \$20.0 million in each fund so long as its ownership interest in each fund does not exceed 50%. During the first six months 2016 and 2015, the Company made additional investments in the funds in the amounts of \$1.7 million and \$2.8 million, respectively.

Table of Contents***Cash Flows From Financing Activities***

| <i>(in thousands)</i> | Six months ended June 30, | |
|--|----------------------------------|-------------|
| | 2016 | 2015 |
| Proceeds from borrowings of long-term debt | \$ 2,666,295 | - |
| Proceeds from exercise of stock options | 9,737 | 19,260 |
| Excess tax benefit from share-based payment arrangements | 8,034 | 4,106 |
| Subsidiary dividends paid to noncontrolling shareholders | (3,829) | (2,818) |
| Repurchase of common stock under plans and tax withholding | (5,034) | (83,521) |
| Purchase of noncontrolling interest | (5,878) | - |
| Debt issuance costs | (26,554) | - |
| Dividends paid on common stock | (36,622) | (36,878) |
| Principal payments on long-term borrowings and capital lease obligations | (435,953) | (26,393) |
| Net cash provided by (used in) financing activities | \$ 2,170,196 | (126,244) |

The main source of cash provided by financing activities in 2016 were proceeds from borrowings of long-term debt. The main uses of cash for financing activities in 2016 were principal payments on long-term borrowings and capital lease obligations, debt issuance costs and the payment of dividends. The main uses of cash for financing activities in 2015 were the repurchase of outstanding shares of common stock, the payment of dividends and principal payments on long-term borrowings and capital lease obligations. The main source of cash provided by financing activities in 2015 were the proceeds from exercises of stock options.

Borrowings

Refer to Note 4 in the Notes to Unaudited Consolidated Financial Statements for more information on borrowings.

Stock Repurchase

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, which is included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

In January 2015, TSYS announced that its Board had approved a new stock repurchase plan to repurchase up to 20 million shares of TSYS stock. The shares may be purchased from time to time at prices considered appropriate. There is no expiration date of the plan.

The Company did not purchase any shares under the plan during the six months ended June 30, 2016. In the first six months of 2015, the Company purchased 2.2 million shares for approximately \$83.5 million, at an average price of \$38.85.

Dividends

Dividends on common stock of \$36.6 million were paid during the six months ended June 30, 2016, compared to \$36.9 million during the six months ended June 30, 2015.

Foreign Operations

TSYS operates internationally and is subject to adverse movements in foreign currency exchange rates. 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.

TSYS maintains operating cash accounts outside the United States. Refer to Note 3 in the Notes to Unaudited Consolidated Financial Statements for more information on cash and cash equivalents. TSYS has adopted the permanent reinvestment exception under GAAP 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

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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.

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 2.8:1. As of June 30, 2016, TSYS had working capital of \$645.9 million compared to \$520.2 million as of December 31, 2015.

Legal Proceedings

Refer to Note 16 of the Company's audited financial statements for the year ended December 31, 2015, which are included as Exhibit 13.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC, for a discussion regarding commitments and contingencies including legal proceedings. Also, for more information regarding the Company's legal proceedings, refer to Note 9 in the Notes to Unaudited Consolidated 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 with respect to the effect of recent accounting pronouncements; (ii) TSYS' expectation that it will be able to fund a significant portion of its capital expenditure needs through internally generated cash in the future; (iii) TSYS' belief with respect to lawsuits, claims and other complaints; (iv) TSYS' expectation with respect to certain tax matters; (v) TSYS' expectation with respect to the timing of deconversions 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, es projects, plans, may, could, should, would, and similar expressions are intended to identify forward

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 the Company's forward-looking statements. Many of these factors are beyond TSYS' ability to control or predict. These factors include, but are not limited to:

the material breach of security of any of TSYS' systems;
TSYS incurs expenses associated with the signing of a significant client;

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organic 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 or attrition rates of existing clients are higher than anticipated;

TSYS does not convert and deconvert clients portfolios as scheduled;

risks associated with foreign operations, including adverse developments with respect to foreign currency exchange rates, and in particular with respect to the current environment, adverse developments with respect to foreign currency exchange rates as a result of the United Kingdom's decision to leave the European Union (Brexit);

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

consolidation in the financial services and other industries, 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 financial institutions which are TSYS clients otherwise ceasing to exist;

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

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

the impact of potential and completed acquisitions, particularly the recently completed TransFirst acquisition, including the costs associated therewith, their being more difficult to integrate than anticipated, and the inability to achieve the anticipated growth opportunities and other benefits of the acquisitions;

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 reliance on financial institution sponsors;

changes occur in laws, rules, regulations, credit card association rules, prepaid industry rules, or other industry standards affecting TSYS and its clients that may result in costly new compliance burdens on TSYS and its clients and lead to a decrease in the volume and/or number of transactions processed or limit the types and amounts of fees that can be charged to customers;

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

one or more of the assumptions upon which TSYS earnings guidance for 2016 is based is inaccurate;

the effect of current domestic and worldwide economic and geopolitical 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, 2015 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.

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 loss, net.

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

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The following table presents the carrying value of the net assets of TSYS foreign operations in U.S. Dollars as of June 30, 2016:

| | |
|-----------------------|----------------------|
| <i>(in thousands)</i> | June 30, 2016 |
| Europe | \$172,312 |
| China | 108,405 |
| Mexico | 7,009 |
| Other | 43,321 |

The Company provides financing to its international operations through intercompany loans that require the operation to repay the financing in amounts denominated in currencies other than the local currency. 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 obligation (receivable) on its financial statements. The upward or downward adjustment is recorded as a gain or loss on foreign currency translation.

TSYS records foreign currency translation adjustments associated with other balance sheet accounts. The Company maintains several cash accounts denominated in foreign currencies, primarily in U.S. Dollars and Japanese Yen. 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.

TSYS recorded net translation gains of approximately \$960,000 and \$1.5 million, respectively, for the three and six months ended June 30, 2016 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 as of June 30, 2016, was approximately \$5.0 million, the majority of which was denominated in U.S. Dollars and Euros.

The net asset account balance subject to foreign currency exchange rates between the local currencies and the U.S. Dollar as of June 30, 2016, was \$22.4 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 \$22.4 million as of June 30, 2016.

| | Effect of basis point change | | | | | |
|--------------------------------------|-------------------------------------|-----|-------|-----------------------------------|-----|-------|
| | Increase in basis point of | | | Decrease in basis point of | | |
| <i>(in thousands)</i> | 100 | 500 | 1,000 | 100 | 500 | 1,000 |
| Effect on income before income taxes | | | | | | |

| | | | | | | |
|----|-----|-------|-------|-------|---------|---------|
| \$ | 224 | 1,122 | 2,244 | (224) | (1,122) | (2,244) |
|----|-----|-------|-------|-------|---------|---------|

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 subject to changes in interest rates.

The Company's Annual Report on Form 10-K for the year ended December 31, 2015, 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. Also, refer to Note 4 in the Notes to Unaudited Consolidated Financial Statements for more information on the Company's long-term debt.

Item 4. Controls and Procedures.

We have evaluated the effectiveness of the design and operation of the Company's 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 the Company's management, including its 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, 2016, TSYS' disclosure controls and procedures were designed and operating effectively 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 operating effectively 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.

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TSYS completed the acquisition of TransFirst in April 2016. TSYS is currently evaluating the TransFirst accounting and reporting process within TSYS' framework of internal controls over financial reporting.

No change in TSYS' internal controls over financial reporting occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II OTHER INFORMATION**Item 1. Legal Proceedings.**

For information regarding TSYS' legal proceedings, refer to Note 9 of the Notes to Unaudited Consolidated Financial Statements which is incorporated by reference into this item.

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, 2015, 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.

There have been no material changes in the Company's risk factors from those disclosed in the Company's 2015 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

| | Total Number of | | Total Number of | |
|--|-----------------|----------------|---|--|
| | Shares | Average Price | Shares | Maximum |
| | Purchased | Paid per Share | Purchased as Part of Publicly Announced Plans or Programs | Number of Shares That May Yet Be Purchased Under the Plans of Programs |
| <i>(in thousands, except per share data)</i> | | | | |
| April 2016 | - | \$ - | 5,150 | 14,850 |
| May 2016 | - | - | 5,150 | 14,850 |
| June 2016 | - | - | 5,150 | 14,850 |
| Total | - | \$ - | | |

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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 |
| 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: August 4, 2016

by: /s/ M. Troy Woods
M. Troy Woods
Chairman and Chief Executive Officer

Date: August 4, 2016

by: /s/ Paul M. Todd
Paul M. Todd
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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| 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 |