

EURONET WORLDWIDE INC

Form 10-Q

August 06, 2010

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

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

For the quarterly period ended June 30, 2010

**OR**

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

**Commission File Number: 001-31648**

**EURONET WORLDWIDE, INC.**

(Exact name of the registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**74-2806888**  
(I.R.S. Employer  
Identification No.)

**3500 COLLEGE BOULEVARD**  
**LEAWOOD, KANSAS**  
(Address of principal executive offices)

**66211**  
(Zip Code)

**(913) 327-4200**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

The number of shares of the issuer's common stock, \$0.02 par value, outstanding as of July 31, 2010 was 50,990,720 shares.



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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EURONET WORLDWIDE, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(In thousands, except share and per share data)**

	<b>June 30, 2010 (unaudited)</b>	<b>As of December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 202,587	\$ 183,528
Restricted cash	72,796	73,148
Inventory PINs and other	68,005	87,661
Trade accounts receivable, net of allowances for doubtful accounts of \$13,444 at June 30, 2010 and \$13,909 at December 31, 2009	226,105	282,905
Prepaid expenses and other current assets	31,056	31,344
<b>Total current assets</b>	<b>600,549</b>	<b>658,586</b>
Property and equipment, net of accumulated depreciation of \$148,353 at June 30, 2010 and \$153,255 at December 31, 2009	81,916	96,592
Goodwill	458,459	504,650
Acquired intangible assets, net of accumulated amortization of \$92,047 at June 30, 2010 and \$88,924 at December 31, 2009	93,580	112,948
Other assets, net of accumulated amortization of \$18,495 at June 30, 2010 and \$16,866 at December 31, 2009	37,115	39,903
<b>Total assets</b>	<b>\$ 1,271,619</b>	<b>\$ 1,412,679</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 207,956	\$ 228,768
Accrued expenses and other current liabilities	212,683	225,474
Current portion of capital lease obligations	1,835	2,510
Short-term debt obligations and current maturities of long-term debt obligations	2,490	3,127
Income taxes payable	15,756	18,379
Deferred revenue	10,510	13,320
<b>Total current liabilities</b>	<b>451,230</b>	<b>491,578</b>
Debt obligations, net of current portion	283,567	320,283
Capital lease obligations, net of current portion	1,273	1,997
Deferred income taxes	19,710	23,854
Other long-term liabilities	6,731	8,464
<b>Total liabilities</b>	<b>762,511</b>	<b>846,176</b>

## Equity:

Euronet Worldwide, Inc. stockholders' equity:

Preferred Stock, \$0.02 par value. 10,000,000 shares authorized; none issued

Common Stock, \$0.02 par value. 90,000,000 shares authorized; 51,216,358 issued at June 30, 2010 and 51,101,833 issued at December 31, 2009

Additional paid-in-capital

Treasury stock, at cost, 250,228 shares at June 30, 2010 and 241,644 shares at December 31, 2009

Accumulated deficit

Restricted reserve

Accumulated other comprehensive income (loss)

Total Euronet Worldwide, Inc. stockholders' equity

Noncontrolling interests

Total equity

Total liabilities and equity

	1,024	1,022
	746,704	740,990
	(1,643)	(1,483)
	(201,796)	(203,139)
	1,009	1,013
	(41,933)	20,566
	503,365	558,969
	5,743	7,534
	509,108	566,503
	\$ 1,271,619	\$ 1,412,679

See accompanying notes to the unaudited consolidated financial statements.

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**EURONET WORLDWIDE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(Unaudited, in thousands, except share and per share data)

	Three Months Ended June		Six Months Ended June 30,	
	2010	30, 2009	2010	2009
Revenues:				
EFT Processing Segment	\$ 46,488	\$ 45,592	\$ 95,054	\$ 91,798
epay Segment	137,689	145,253	283,069	279,776
Money Transfer Segment	60,051	57,769	116,108	110,737
Total revenues	244,228	248,614	494,231	482,311
Operating expenses:				
Direct operating costs	160,836	165,053	326,697	318,601
Salaries and benefits	31,448	31,085	63,620	59,681
Selling, general and administrative	21,850	20,911	41,043	39,979
Goodwill and acquired intangible assets impairment				9,884
Depreciation and amortization	13,552	13,541	28,100	26,444
Total operating expenses	227,686	230,590	459,460	454,589
Operating income	16,542	18,024	34,771	27,722
Other income (expense):				
Interest income	572	885	1,127	1,854
Interest expense	(5,031)	(6,653)	(9,985)	(13,720)
Income from unconsolidated affiliates	447	516	1,001	1,034
Loss on early retirement of debt		(150)		(253)
Foreign currency exchange gain (loss), net	(9,341)	9,650	(14,423)	(941)
Other income (expense), net	(13,353)	4,248	(22,280)	(12,026)
Income from continuing operations before income taxes	3,189	22,272	12,491	15,696
Income tax expense	(4,344)	(6,397)	(10,131)	(11,714)
Income (loss) from continuing operations	(1,155)	15,875	2,360	3,982

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Discontinued operations, net		146		85
Net income (loss)	(1,155)	16,021	2,360	4,067
Less: Net income attributable to noncontrolling interests	(328)	(477)	(1,017)	(821)
Net income (loss) attributable to Euronet Worldwide, Inc.	\$ (1,483)	\$ 15,544	\$ 1,343	\$ 3,246
Earnings (loss) per share attributable to Euronet Worldwide, Inc. stockholders basic:				
Continuing operations	\$ (0.03)	\$ 0.31	\$ 0.03	\$ 0.06
Discontinued operations				
Total	\$ (0.03)	\$ 0.31	\$ 0.03	\$ 0.06
Basic weighted average shares outstanding	50,914,453	50,425,261	50,857,812	50,358,983
Earnings (loss) per share attributable to Euronet Worldwide, Inc. stockholders diluted:				
Continuing operations	\$ (0.03)	\$ 0.30	\$ 0.03	\$ 0.06
Discontinued operations				
Total	\$ (0.03)	\$ 0.30	\$ 0.03	\$ 0.06
Diluted weighted average shares outstanding	50,914,453	51,240,221	51,777,392	50,821,373

See accompanying notes to the unaudited consolidated financial statements.



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**EURONET WORLDWIDE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**(Unaudited, in thousands)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ (1,155)	\$ 16,021	\$ 2,360	\$ 4,067
Other comprehensive income (loss), net of tax:				
Translation adjustment	(41,652)	39,736	(63,631)	18,123
Unrealized gain on interest rate swaps		353		830
Gain on investment securities		803		1,030
Comprehensive income (loss)	(42,807)	56,913	(61,271)	24,050
Comprehensive (income) loss attributable to noncontrolling interests	401	(825)	115	(925)
Comprehensive income (loss) attributable to Euronet Worldwide, Inc.	\$ (42,406)	\$ 56,088	\$ (61,156)	\$ 23,125

See accompanying notes to the unaudited consolidated financial statements.

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**EURONET WORLDWIDE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**(Unaudited, in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 2,360	\$ 4,067
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,100	26,444
Share-based compensation	4,391	3,825
Unrealized foreign exchange loss, net	14,625	1,000
Non-cash impairment of goodwill and acquired intangible assets		9,884
Deferred income taxes	(2,089)	(2,679)
Income from unconsolidated affiliates	(1,001)	(1,034)
Accretion of convertible debentures discount and amortization of debt issuance costs	4,332	5,855
Changes in working capital, net of amounts acquired:		
Income taxes payable, net	(2,839)	3,472
Restricted cash	(5,230)	32,460
Inventory PINs and other	14,531	8,857
Trade accounts receivable	34,211	28,577
Prepaid expenses and other current assets	(2,340)	(2,684)
Trade accounts payable	(3,737)	(37,890)
Deferred revenue	(2,684)	(1,896)
Accrued expenses and other current liabilities	3,764	(18,956)
Changes in noncurrent assets and liabilities	1,644	(9,284)
Net cash provided by operating activities	88,038	50,018
Cash flows from investing activities:		
Acquisitions, net of cash acquired		(10,016)
Purchases of property and equipment	(12,427)	(16,783)
Purchases of other long-term assets	(2,618)	(1,360)
Other, net	473	(270)
Net cash used in investing activities	(14,572)	(28,429)
Cash flows from financing activities:		
Proceeds from issuance of shares	1,311	888
Borrowings from revolving credit agreements classified as non-current liabilities	108,000	285,400
Repayments of revolving credit agreements classified as non-current liabilities	(147,172)	(297,219)
Repayments of long-term debt obligations	(2,227)	(27,083)
Repayments of capital lease obligations	(1,255)	(3,149)

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Cash dividends paid to noncontrolling interests stockholders	(1,676)	(2,413)
Other, net	728	(812)
Net cash used in financing activities	(42,291)	(44,388)
Effect of exchange rate changes on cash and cash equivalents	(12,116)	2,508
Increase (decrease) in cash and cash equivalents	19,059	(20,291)
Cash and cash equivalents at beginning of period (includes cash of discontinued operations of \$552 in 2009)	183,528	181,893
Cash and cash equivalents at end of period (includes cash of discontinued operations of \$1,086 in 2009)	\$ 202,587	\$ 161,602
Interest paid during the period	\$ 5,643	\$ 7,162
Income taxes paid during the period	15,191	11,805

See accompanying notes to the unaudited consolidated financial statements.

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**EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) GENERAL**

*Organization*

Euronet Worldwide, Inc. and its subsidiaries (the Company or Euronet) is an industry leader in processing secure electronic financial transactions in three principal business segments. Euronet's EFT Processing Segment provides end-to-end solutions relating to operations of automated teller machine (ATM) and point-of-sale (POS) networks, and debit and credit card processing in Europe, the Middle East and Asia Pacific. The epay Segment is one of the world's largest providers of top-up services for prepaid products, primarily prepaid mobile airtime, distributing these products in Europe, the Middle East, Asia Pacific and North America. The Money Transfer Segment is comprised primarily of the Company's RIA Enviva, Inc. (RIA) subsidiary and its operating subsidiaries, which is the third-largest global money transfer company based upon revenues and volumes. The Money Transfer Segment provides services through a sending network of agents and Company-owned stores primarily in North America and Europe, disbursing money transfers through a worldwide correspondent network. See Note 8, Segment Information, for additional information about the Company's business segments.

*Basis of presentation*

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company, in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, such unaudited consolidated financial statements contain all adjustments (consisting of normal interim closing procedures) necessary to present fairly the financial position of the Company as of June 30, 2010, and the results of its operations for the three- and six-month periods ended June 30, 2010 and 2009 and its cash flows for the six-month periods ended June 30, 2010 and 2009.

The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Euronet for the year ended December 31, 2009, including the notes thereto, set forth in the Company's 2009 Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for the three- and six-month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010. Certain amounts in the prior year have been reclassified to conform to current period presentation.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

*Multiple-deliverable revenue arrangements*

Effective January 1, 2010, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* a consensus of the FASB Emerging Issues Task Force. ASU 2009-13 adds estimated selling price as acceptable evidence of fair value of undelivered products and services in revenue arrangements with multiple deliverables. Estimated selling price can be used if there is no vendor specific objective evidence or third-party evidence of fair value. Additionally, ASU 2009-13 eliminates the use of the residual method of allocating revenue and establishes the relative selling price method as the appropriate means to allocate revenue to each deliverable of an arrangement. The adoption of ASU 2009-13 did not materially affect the Company's unaudited consolidated financial statements.

*Money transfer settlement obligations*

Money transfer settlement obligations are recorded in accrued expenses and other current liabilities on the Company's Unaudited Consolidated Balance Sheets and consist of amounts owed by Euronet to money transfer recipients. As of June 30, 2010, the Company's money transfer settlement obligations were \$28.1 million.

**Table of Contents****(3) EARNINGS PER SHARE**

Basic earnings per share has been computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the respective period. Diluted earnings per share has been computed by dividing earnings available to common stockholders by the weighted average shares outstanding during the respective period, after adjusting for any potential dilution of the assumed conversion of the Company's convertible debentures, shares issuable in connection with acquisition obligations, restricted stock and options to purchase the Company's common stock. The following table provides the computation of diluted weighted average number of common shares outstanding:

	<b>Three Months Ended June</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>30, 2009</b>	<b>2010</b>	<b>2009</b>
Computation of diluted weighted average shares outstanding:				
Basic weighted average shares outstanding	50,914,453	50,425,261	50,857,812	50,358,983
Incremental shares from assumed conversion of stock options and restricted stock		814,960	919,580	462,390
Diluted weighted average shares outstanding	50,914,453	51,240,221	51,777,392	50,821,373

The table includes all stock options and restricted stock that are dilutive to Euronet's weighted average common shares outstanding during the period. For the three months ended June 30, 2010, the Company incurred a net loss; therefore, diluted loss per share is the same as basic loss per share for the period. The calculation of diluted earnings (loss) per share excludes stock options or shares of restricted stock that are anti-dilutive to the Company's weighted average common shares outstanding of approximately 4,963,000 and 2,252,000 for the three- and six-month periods ended June 30, 2010, respectively, and of approximately 1,989,000 and 3,868,000 for the three- and six-month periods ended June 30, 2009, respectively.

The Company has convertible debentures that, if converted, would have a potentially dilutive effect on the Company's stock. As required by Accounting Standards Codification (ASC) Topic 260, *Earnings per Share*, if dilutive, the impact of the contingently issuable shares must be included in the calculation of diluted earnings per share under the if-converted method, regardless of whether the conditions upon which the debentures would be convertible into shares of the Company's common stock have been met. The Company's 3.50% debentures are convertible into 4.3 million shares of common stock only upon the occurrence of certain conditions. Under the if-converted method, the assumed conversion of the 3.50% debentures was anti-dilutive for the three- and six-month periods ended June 30, 2010 and 2009. The Company's remaining 1.625% convertible debentures outstanding were repurchased in January 2010 and the assumed conversion of the then-outstanding debentures was anti-dilutive for the six-month period ended June 30, 2010 and for the three- and six-month periods ended June 30, 2009.

**(4) DISCONTINUED OPERATIONS**

During the fourth quarter of 2009, the Company sold Euronet Essentia Limited (Essentia), a U.K. software entity, in order to focus its investments and resources on its transaction processing businesses. Accordingly, Essentia's results of operations are shown as discontinued operations in the Unaudited Consolidated Statements of Operations. Previously, Essentia's results were reported in the EFT Processing Segment. The segment results in Note 8, Segment Information, also reflect the classification of Essentia's results in discontinued operations. The following amounts related to Essentia have been segregated from continuing operations and reported as discontinued operations:

(in thousands)	<b>Three Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2009</b>
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Revenues	\$ 1,835	\$ 3,259
Income before income taxes	\$ 212	\$ 119
Net income	\$ 146	\$ 85

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A summary of acquired intangible assets and goodwill activity for the six-month period ended June 30, 2010 is presented below:

(in thousands)	<b>Acquired Intangible Assets</b>	<b>Goodwill</b>	<b>Total Intangible Assets</b>
Balance as of December 31, 2009	\$ 112,948	\$ 504,650	\$ 617,598
Decreases:			
Amortization	(11,295)		(11,295)
Other (primarily changes in foreign currency exchange rates)	(8,073)	(46,191)	(54,264)
Balance as of June 30, 2010	\$ 93,580	\$ 458,459	\$ 552,039

Estimated annual amortization expense on intangible assets with finite lives, before income taxes, as of June 30, 2010, is expected to total \$22.1 million for 2010, \$18.2 million for 2011, \$16.0 million for 2012, \$12.0 million for 2013, \$9.6 million for 2014 and \$4.5 million for 2015.

The Company's annual goodwill impairment test is performed during the fourth quarter. The Company's annual impairment test for the year ended December 31, 2008 resulted in the Company recording an estimated non-cash goodwill impairment charge of \$219.8 million in the fourth quarter of 2008 related to its RIA money transfer business and its Spanish prepaid business. The Company completed the impairment testing in the first quarter of 2009 and recorded an additional non-cash goodwill impairment charge of \$8.8 million and a \$1.1 million non-cash impairment charge related to a money transfer intangible asset in the first quarter of 2009. The annual impairment test completed in the fourth quarter of 2009 resulted in no impairment charges.

Determining the fair value of reporting units requires significant management judgment in estimating future cash flows and assessing potential market and economic conditions. It is reasonably possible that the Company's operations will not perform as expected, or that estimates or assumptions could change, which may result in the Company recording additional material non-cash impairment charges during the year in which these changes take place.

**(6) DEBT OBLIGATIONS**

A summary of debt obligation activity for the six-month period ended June 30, 2010 is presented below:

(in thousands)	<b>Revolving Credit Facilities</b>	<b>Other Debt Obligations</b>	<b>Capital Leases</b>	<b>1.625% Convertible Debentures Due 2024</b>	<b>3.50% Convertible Debentures Due 2025</b>	<b>Term Loan</b>	<b>Total</b>
Balance at December 31, 2009	\$ 39,164	\$ 92	\$ 4,507	\$ 1,227	\$ 153,927	\$ 129,000	\$ 327,917
Increases (decreases):							
Net borrowings (repayments)	(39,172)	692	(1,119)	(1,227)		(1,000)	(41,826)
Accretion					3,461		3,461
Capital lease interest			196				196
Foreign currency exchange (gain) loss	8	(115)	(476)				(583)

Balance at June 30, 2010	669	3,108	157,388	128,000	289,165
Less current maturities	(590)	(1,835)		(1,900)	(4,325)
Long-term obligations at June 30, 2010	\$ 79	\$ 1,273	\$ 157,388	\$ 126,100	\$ 284,840

In January 2010, the Company elected to redeem the remaining \$1.2 million of outstanding 1.625% debentures at par. Contractual interest expense for the 1.625% convertible debentures was \$1 thousand for the six months ended June 30, 2010. Contractual interest expense was \$0.2 million and \$0.5 million and discount accretion was \$0.7 million and \$1.6 million for the three and six months ended June 30, 2009, respectively. The effective interest rate was 1.625% for the period the debentures were outstanding during 2010 and 7.1% for the three and six months ended June 30, 2009. The 3.50% convertible debentures had principal amounts outstanding of \$175.0 million and unamortized discounts outstanding of \$17.6 million and \$21.1 million as of June 30, 2010 and December 31, 2009, respectively. The discount will be amortized through October 15, 2012. Contractual interest expense was \$1.5 million and \$3.1 million for the respective three- and six-month periods ended June 30, 2010



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and 2009. Discount accretion was \$1.7 million and \$3.5 million for the three and six months ended June 30, 2010, respectively, and \$1.6 million and \$3.2 million for the three and six months ended June 30, 2009, respectively. The effective interest rate was 8.4% for the three and six months ended June 30, 2010 and 2009.

**(7) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

As of June 30, 2010, the Company had foreign currency forward contracts outstanding with a notional value of \$41.3 million, primarily in euros and U.S. dollars, which were not designated as hedges and had a weighted average remaining maturity of 4.1 days. Although the Company enters into foreign currency forward contracts to offset foreign currency exposure related to the notional value of money transfer transactions collected in currencies other than the U.S. dollar, they are not designated as hedges under ASC Topic 815. This is mainly due to the relatively short duration of the contracts, typically 1 to 14 days, and the frequency with which the Company enters into them.

The Company has an office lease in a foreign country that requires payment in a currency that is not the functional currency of either party to the lease or the Company's reporting currency. Therefore, the lease contains an embedded derivative per ASC Topic 815 and its fair value is recorded in the Unaudited Consolidated Balance Sheets.

During 2007, the Company entered into interest rate swap agreements for a total notional amount of \$50 million to manage interest rate exposure related to a portion of the term loan. The interest rate swap agreements were determined to be cash flow hedges and effectively converted \$50 million of the term loan to a fixed interest rate of 7.3% through the May 2009 maturity date of the swap agreements. The swap agreements required no payment by either party at their maturities.

Below are the tabular disclosures required for derivative instruments:

(in thousands)	Consolidated Balance Sheet Location	Fair Values of Derivative Instruments	
		June 30, 2010	December 31, 2009
		<b>Asset Derivatives</b>	
<b>Derivatives not designated as hedging instruments under ASC Topic 815</b>			
Foreign currency derivative contracts - gross gains	Cash and cash equivalents	\$ 113	\$ 138
Foreign currency derivative contracts - gross losses	Cash and cash equivalents	(74)	(102)
Total		\$ 39	\$ 36
		<b>Liability Derivatives</b>	
Embedded derivative in foreign lease	Other long-term liabilities	\$ (198)	\$ (220)
<b>Total derivatives</b>		<b>\$ (159)</b>	<b>\$ (184)</b>

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(in thousands)	Amount of Gain Recognized in OCI on Derivative (Effective Portion) Three Months Ended June 30,		Amount of Gain Recognized in OCI on Derivative (Effective Portion) Six Months Ended June 30,	
	2010	2009	2010	2009
	<b>Derivatives in ASC Topic 815 Cash Flow Hedging Relationships</b>			
Interest rate swaps related to floating rate debt	\$	\$ 353	\$	\$ 830

(in thousands)	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative Three Months Ended June 30,		Amount of Gain (Loss) Recognized in Income on Derivative Six Months Ended June 30,	
		2010	2009	2010	2009
		<b>Derivatives not designated as hedging instruments under ASC Topic 815</b>			
Foreign currency derivative contracts	Foreign currency exchange gain (loss), net	\$ (44)	\$ 42	\$ 99	\$ 5
Embedded derivative in foreign lease	Foreign currency exchange gain (loss), net	(41)	276	22	(293)
Total		\$ (85)	\$ 318	\$ 121	\$ (288)

See Note 9, Fair Value Measurements, for the determination of the fair values of derivatives.

**(8) SEGMENT INFORMATION**

Euronet's reportable operating segments have been determined in accordance with ASC Topic 280, *Segment Reporting*. The Company currently operates in the following three reportable operating segments:

- 1) Through the EFT Processing Segment, the Company processes transactions for a network of ATMs and POS terminals across Europe, the Middle East and Asia Pacific. The Company provides comprehensive electronic payment solutions consisting of ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing and electronic recharge services for prepaid mobile airtime. Through this segment, the Company also offers a suite of integrated electronic financial transaction ( EFT ) software solutions for electronic payment and transaction delivery systems.
- 2) Through the epay Segment, the Company provides distribution of prepaid mobile airtime and other electronic payment products and collection services in Europe, the Middle East, Asia Pacific and North America.

- 3) Through the Money Transfer Segment, the Company provides global consumer-to-consumer money transfer and bill payment services through a sending network of agents and Company-owned stores primarily in North America and Europe, disbursing money transfers through a worldwide correspondent network. Bill payment services are offered primarily in the U.S.

In addition, in its administrative division, Corporate Services, Eliminations and Other, the Company accounts for non-operating activity, share-based compensation expense, certain intersegment eliminations and the costs of providing corporate and other administrative services to the three segments. These services are not directly identifiable with the Company's reportable operating segments.

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The following tables present the segment results of the Company's operations for the three- and six-month periods ended June 30, 2010 and 2009:

(in thousands)	<b>For the Three Months Ended June 30, 2010</b>				
	<b>EFT Processing</b>	<b>epay</b>	<b>Money Transfer</b>	<b>Corporate Services, Eliminations and Other</b>	<b>Consolidated</b>
Total revenues	\$ 46,488	\$ 137,689	\$ 60,051	\$	\$ 244,228
Operating expenses:					
Direct operating costs	22,790	109,754	28,292		160,836
Salaries and benefits	6,863	7,154	13,886	3,545	31,448
Selling, general and administrative	4,116	7,429	8,666	1,639	21,850
Depreciation and amortization	4,486	3,822	4,967	277	13,552
Total operating expenses	38,255	128,159	55,811	5,461	227,686
Operating income (loss)	\$ 8,233	\$ 9,530	\$ 4,240	\$ (5,461)	\$ 16,542

(in thousands)	<b>For the Three Months Ended June 30, 2009</b>				
	<b>EFT Processing</b>	<b>epay</b>	<b>Money Transfer</b>	<b>Corporate Services, Eliminations and Other</b>	<b>Consolidated</b>
Total revenues	\$ 45,592	\$ 145,253	\$ 57,769	\$	\$ 248,614
Operating expenses:					
Direct operating costs	19,656	117,342	28,055		165,053
Salaries and benefits	7,443	6,793	13,103	3,746	31,085
Selling, general and administrative	4,157	5,409	8,847	2,498	20,911
Depreciation and amortization	4,537	3,598	5,083	323	13,541
Total operating expenses	35,793	133,142	55,088	6,567	230,590
Operating income (loss)	\$ 9,799	\$ 12,111	\$ 2,681	\$ (6,567)	\$ 18,024

(in thousands)	<b>For the Six Months Ended June 30, 2010</b>				
	<b>EFT Processing</b>	<b>epay</b>	<b>Money Transfer</b>	<b>Corporate Services, Eliminations and Other</b>	<b>Consolidated</b>
Total revenues	\$ 91,184	\$ 272,936	\$ 117,110	\$	\$ 581,230
Operating expenses:					
Direct operating costs	39,312	234,634	56,310		330,256
Salaries and benefits	14,296	13,987	26,899	7,491	62,673
Selling, general and administrative	8,273	14,829	17,516	3,387	44,005
Depreciation and amortization	8,912	6,877	8,360	627	24,776
Total operating expenses	69,793	270,327	109,045	11,505	460,670
Operating income (loss)	\$ 21,391	\$ 102,609	\$ 7,995	\$ (11,505)	\$ 119,560

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(in thousands)	<b>Processing</b>	<b>epay</b>	<b>Transfer</b>	<b>and Other</b>	<b>Consolidated</b>
Total revenues	\$ 95,054	\$ 283,069	\$ 116,108	\$	\$ 494,231
Operating expenses:					
Direct operating costs	46,718	225,353	54,626		326,697
Salaries and benefits	13,104	15,479	28,083	6,954	63,620
Selling, general and administrative	7,870	12,660	17,610	2,903	41,043
Depreciation and amortization	9,410	7,977	10,057	656	28,100
Total operating expenses	77,102	261,469	110,376	10,513	459,460
Operating income (loss)	\$ 17,952	\$ 21,600	\$ 5,732	\$ (10,513)	\$ 34,771

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(in thousands)	<b>For the Six Months Ended June 30, 2009</b>				
	<b>EFT Processing</b>	<b>epay</b>	<b>Money Transfer</b>	<b>Corporate Services, Eliminations and Other</b>	<b>Consolidated</b>
Total revenues	\$ 91,798	\$ 279,776	\$ 110,737	\$	\$ 482,311
Operating expenses:					
Direct operating costs	38,611	226,377	53,613		318,601
Salaries and benefits	14,455	13,217	24,923	7,086	59,681
Selling, general and administrative	8,304	9,951	17,662	4,062	39,979
Goodwill and acquired intangible assets impairment			9,884		9,884
Depreciation and amortization	8,719	7,244	9,845	636	26,444
Total operating expenses	70,089	256,789	115,927	11,784	454,589
Operating income (loss)	\$ 21,709	\$ 22,987	\$ (5,190)	\$ (11,784)	\$ 27,722

**(9) FAIR VALUE MEASUREMENTS**

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable and short-term debt obligations approximate fair values due to their short maturities. The carrying values of the Company's term loan due 2014 and revolving credit agreements approximate fair values because interest is based on London Inter-Bank Offered Rate (LIBOR) that resets at various intervals of less than one year. The following table provides the estimated fair values of the Company's other financial instruments, based on quoted market prices or significant other observable inputs.

(in thousands)	<b>As of</b>			
	<b>June 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
3.50% convertible debentures, unsecured, due 2025	(157,388)	(160,125)	(153,927)	(162,313)
Foreign currency derivative contracts	39	39	36	36
Embedded derivative in foreign lease	(198)	(198)	(220)	(220)
1.625% convertible senior debentures, unsecured, due 2024			(1,227)	(1,224)

The Company's assets and liabilities recorded at fair value on a recurring basis using significant other observable inputs are the foreign currency derivative contracts and the embedded derivative in foreign lease. The Company values foreign currency derivative contracts using foreign currency exchange quotations for similar assets and liabilities. The embedded derivative in foreign lease is valued using present value techniques and foreign currency exchange quotations.

Certain assets are measured at fair value on a non-recurring basis. During the first quarter of 2009, the Company finalized the assessment of the fair value of the goodwill related to its RIA money transfer business and its Spanish prepaid business and recorded an impairment charge of \$8.8 million as discussed in Note 5, Goodwill and Acquired

Intangible Assets, Net. The fair values were determined using significant unobservable inputs. The \$258.8 million fair value of goodwill was determined by calculating its implied fair value as the excess of the fair value of the respective entity over the fair value of its net assets. Additionally, during the first quarter of 2009, management determined that an acquired intangible asset associated with a previous acquisition in the Money Transfer Segment had no value and, accordingly, the Company wrote off the remaining net book value of the intangible asset of \$1.1 million.

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**(10) GUARANTEES**

As of June 30, 2010, the Company had \$53.9 million of stand-by letters of credit/bank guarantees issued on its behalf, of which \$10.1 million are collateralized by cash deposits held by the respective issuing banks.

Under certain circumstances, Euronet grants guarantees in support of obligations of subsidiaries. As of June 30, 2010, the Company granted off balance sheet guarantees for cash in various ATM networks amounting to \$18.3 million over the terms of the cash supply agreements and performance guarantees amounting to approximately \$27.0 million over the terms of the agreements with the customers.

From time to time, Euronet enters into agreements with unaffiliated parties that contain indemnification provisions, the terms of which may vary depending on the negotiated terms of each respective agreement. The amount of such potential obligations is generally not stated in the agreements. Our liability under such indemnification provisions may be mitigated by relevant insurance coverage and may be subject to time and materiality limitations, monetary caps and other conditions and defenses. Such indemnification obligations include the following:

In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for damage to ATMs and theft of ATM network cash that, generally, is not recorded on the Company's Consolidated Balance Sheets. As of June 30, 2010, the balance of ATM network cash for which the Company was responsible was approximately \$230 million. The Company maintains insurance policies to mitigate this exposure;

In connection with the license of proprietary systems to customers, Euronet provides certain warranties and infringement indemnities to the licensee, which generally warrant that such systems do not infringe on intellectual property owned by third parties and that the systems will perform in accordance with their specifications;

Euronet has entered into purchase and service agreements with vendors and consulting agreements with providers of consulting services, pursuant to which the Company has agreed to indemnify certain of such vendors and consultants, respectively, against third-party claims arising from the Company's use of the vendor's product or the services of the vendor or consultant;

In connection with acquisitions and dispositions of subsidiaries, operating units and business assets, the Company has entered into agreements containing indemnification provisions, which can be generally described as follows: (i) in connection with acquisitions made by Euronet, the Company has agreed to indemnify the seller against third party claims made against the seller relating to the subject subsidiary, operating unit or asset and arising after the closing of the transaction, and (ii) in connection with dispositions made by Euronet, Euronet has agreed to indemnify the buyer against damages incurred by the buyer due to the buyer's reliance on representations and warranties relating to the subject subsidiary, operating unit or business assets in the disposition agreement if such representations or warranties were untrue when made;

Euronet has entered into agreements with certain third parties, including banks that provide fiduciary and other services to Euronet or to the Company's benefit plans. Under such agreements, the Company has agreed to indemnify such service providers for third party claims relating to the carrying out of their respective duties under such agreements; and

The Company has obtained surety bonds in compliance with money transfer licensing requirements of the applicable governmental authorities.

The Company is also required to meet minimum capitalization and cash requirements of various regulatory authorities in the jurisdictions in which the Company has money transfer operations. To date, the Company is not aware of any significant claims made by the indemnified parties or third parties to guarantee agreements with the Company and, accordingly, no liabilities were recorded as of June 30, 2010 or December 31, 2009.

**(11) INCOME TAXES**



The Company's effective tax rates for continuing operations were 136.2% and 28.7% for the three-month periods ended June 30, 2010 and 2009, respectively, and were 81.1% and 74.6% for the six-month periods ended June 30, 2010 and 2009, respectively. The effective tax rates were significantly influenced by the foreign currency exchange gains and losses in the respective periods and by the goodwill and acquired intangible assets impairment charge in the first quarter of 2009. Excluding foreign currency exchange results and the impairment charge from pre-tax income, as well as the related tax effects for these items, the Company's effective tax rates were 36.2% and 46.8% for the three months ended June 30, 2010 and 2009, respectively, and 39.0% and 44.1% for the six months ended June 30, 2010 and 2009, respectively.

The increase in the effective tax rate, as adjusted, for the second quarter of 2010 compared to the applicable statutory rate of 35% is primarily related to the Company's U.S. tax position. For the three- and six-month periods ended June 30, 2010, the Company has recorded a valuation allowance against its U.S. federal tax net operating losses as it is more likely than not that a tax benefit will not be realized. Accordingly, the federal income tax benefit associated with pre-tax book losses generated by the Company's U.S. entities has

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not been recognized in these periods. For the second quarter of 2010, this increase was partly offset by a \$1.0 million adjustment to the reserve related to deferred tax assets generated from prior U.S. net operating losses. Additionally, the effective tax rate for the first half of 2010 is lower due to a \$0.8 million adjustment related to a foreign tax law change.

**(12) CONTINGENCIES**

In the second quarter of 2009, the Antitrust Division of the United States Department of Justice (the DOJ) served Continental Exchange Solutions, Inc. d/b/a RIA Financial Services (CES), an indirect, wholly-owned subsidiary of the Company, with a grand jury subpoena requesting documents from CES and its affiliates in connection with an investigation into possible price collusion related to money transmission services to the Dominican Republic (D.R.) during the period from January 1, 2004 to the date of the subpoena. The Company acquired all of the stock of RIA Envia, Inc., the parent of CES, in April 2007. CES foreign exchange transactions between the U.S and the D.R. generated approximately 0.3% of the Company's 2009 consolidated revenues. The Company and CES are fully cooperating with the DOJ in its investigation.

The Company believes that, during the period covered by the DOJ investigation, CES generally derived part of its charge for exchanging U.S. dollars into D.R. pesos from a reference rate recommended by ADEREDI, a trade association in the D.R. composed of a CES subsidiary and other D.R. money transfer firms. The Company further believes, however, that CES set its own service fee on the D.R. transactions and its overall transaction price to customers. Customers were also free during this time period to use CES and other firms to transmit dollars into the D.R., without conversion into D.R. pesos, and the Company believes such transmissions occurred with increasing frequency over the course of this time period.

At this time, the Company is unable to predict the outcome of the DOJ investigation, or, if charges were to be brought against CES, the possible range of loss, if any, associated with the resolution of any such charges. Nor can the Company predict any potential effect on the Company's business, results of operations or financial condition arising from such charges or potential collateral consequences, which could include fines, penalties, limitations on or revocation of CES's license to engage in the money transfer business in one or more states, and civil liability. In addition, the Company has incurred and may continue to incur significant fees and expenses in connection with the DOJ investigation and related matters.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OVERVIEW**

**COMPANY OVERVIEW, GEOGRAPHIC LOCATIONS AND PRINCIPAL PRODUCTS AND SERVICES**

Euronet Worldwide, Inc. ( Euronet the Company, we or us ) is a leading electronic payments provider. We offer payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Our primary product offerings include comprehensive automated teller machine ( ATM ), point-of-sale ( POS ) and card outsourcing services; electronic distribution of prepaid mobile airtime and other prepaid products; and global consumer money transfer services. As of June 30, 2010, we operate in the following three principal business segments:

The EFT Processing Segment, which processes transactions for a network of 10,408 ATMs and approximately 57,000 POS terminals across Europe, the Middle East and Asia Pacific. We provide comprehensive electronic payment solutions consisting of ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing and electronic recharge services for prepaid mobile airtime. Through this segment, we also offer a suite of integrated electronic financial transaction ( EFT ) software solutions for electronic payment and transaction delivery systems.

The epay Segment, which provides distribution of prepaid mobile airtime and other electronic payment products and collection services for various prepaid products, cards and services. Including terminals operated by unconsolidated subsidiaries, we operate a network of approximately 515,000 POS terminals providing electronic processing of prepaid mobile airtime top-up services in Europe, the Middle East, Asia Pacific and North America.

The Money Transfer Segment, which provides global consumer-to-consumer money transfer and bill payment services through a sending network of agents and Company-owned stores primarily in North America and Europe, disbursing money transfers through a worldwide correspondent network. The Money Transfer Segment originates and terminates transactions through a network of approximately 104,400 locations, which include sending agents and Company-owned stores, and an extensive correspondent network in 120 countries. Bill payment services are offered primarily in the U.S.

We have six processing centers in Europe, two in Asia Pacific and two in North America. We have 25 principal offices in Europe, seven in North America, six in Asia Pacific and one in the Middle East. Our executive offices are located in Leawood, Kansas, USA. With approximately 76% of our revenues denominated in currencies other than the U.S. dollar, any significant changes in currency exchange rates will likely have a significant impact on our results of operations.

**SOURCES OF REVENUES AND CASH FLOW**

Euronet earns revenues and income based on ATM management fees, transaction fees and commissions, professional services, software licensing fees and software maintenance agreements. Each business segment's sources of revenue are described below.

*EFT Processing Segment* Revenues in the EFT Processing Segment, which represented approximately 19% of total consolidated revenues for the first half of 2010, are derived from fees charged for transactions made by cardholders on our proprietary network of ATMs, as well as fixed management fees and transaction fees we charge to banks for operating ATMs and processing debit and credit cards under outsourcing agreements. Through our proprietary network, we generally charge fees for four types of ATM transactions: i) cash withdrawals, ii) balance inquiries, iii) transactions not completed because the relevant card issuer did not give authorization, and iv) prepaid telecommunication recharges. Revenues in this segment are also derived from license fees, professional services and maintenance fees for software and sales of related hardware. Software license fees are the fees we charge to license our proprietary application software to customers. Professional service fees consist of charges for customization, installation and consulting services to customers. Software maintenance revenues represent the ongoing fees charged for maintenance and support for customers' software products. Hardware sales are derived from the sale of computer

equipment necessary for the respective software solution.

*epay Segment* Revenues in the epay Segment, which represented approximately 57% of total consolidated revenues for the first half of 2010, are primarily derived from commissions or processing fees received from telecommunications service providers for the sale and distribution of prepaid mobile airtime. We also generate revenues from commissions earned from the distribution of other electronic payment products. Due to certain provisions in our mobile phone operator agreements, the operators have the ability to reduce the overall commission paid on each top-up transaction. However, by virtue of our agreements with retailers (distributors where POS terminals are located) in certain markets, not all of these reductions are absorbed by us because we are able to pass a significant portion of the reductions to retailers. Accordingly, under certain retailer agreements, the effect is to reduce revenues and reduce our direct operating costs resulting in only a small impact on gross profit and operating income. In some markets, reductions in commissions can significantly impact our results as it may not be possible, either contractually or commercially in the concerned market, to pass a reduction in commissions to the retailers. In Australia, certain retailers negotiate directly with the mobile phone operators for their own commission rates, which also limits our ability to pass through reductions in commissions. Agreements with mobile operators are important to the success of our business. These agreements permit us to distribute prepaid mobile airtime to the mobile operators customers. Other

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products offered by this segment include prepaid long distance calling card plans, prepaid Internet plans, prepaid debit cards, prepaid gift cards, prepaid vouchers, transport payments, lottery payments, bill payment, money transfer and prepaid content such as music and games.

*Money Transfer Segment* Revenues in the Money Transfer Segment, which represented approximately 24% of total consolidated revenues for the first half of 2010, are primarily derived from charging a transaction fee and retaining the difference between the price of foreign currency purchased at wholesale exchange rates and sold to consumers at retail exchange rates. We have an origination network in place comprised of agents and Company-owned stores primarily in North America and Europe and a worldwide network of correspondent agents, consisting primarily of financial institutions in the transfer destination countries. Origination and correspondent agents each earn fees for cash collection and distribution services. These fees are recognized as direct operating costs at the time of sale.

**OPPORTUNITIES AND CHALLENGES**

*EFT Processing Segment* - The continued expansion and development of our EFT Processing Segment business will depend on various factors including, but not necessarily limited to, the following:

the impact of competition by banks and other ATM operators and service providers in our current target markets;

the demand for our ATM outsourcing services in our current target markets;

the ability to develop products or services to drive increases in transactions;

the expansion of our various business lines in markets where we operate and in new markets;

the entrance into additional card acceptance and ATM management agreements with banks;

the ability to obtain required licenses in markets we intend to enter or expand services;

the availability of financing for expansion;

the ability to efficiently install ATMs contracted under newly awarded outsourcing agreements;

the ability to renew existing contracts at profitable rates;

the ability to maintain pricing and interchange fees at current levels;

the ability to expand and sign additional customers for the cross-border merchant processing and acquiring business; and

the continued development and implementation of our software products and their ability to interact with other leading products.

*epay Segment* The continued expansion and development of the epay Segment business will depend on various