

EURONET WORLDWIDE INC  
Form 10-Q  
July 31, 2015

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, 2015

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

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-31648

EURONET WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware

74-2806888

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

3500 College Boulevard

Leawood, Kansas

66211

(Address of principal executive offices)

(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 (§

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

On July 30, 2015, Euronet Worldwide, Inc. had 52,717,405 shares of Common Stock outstanding.

EURONET WORLDWIDE, INC. AND SUBSIDIARIES

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	As of June 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$538,075	\$ 468,010
Restricted cash	45,865	68,028
Inventory — PINs and other	59,404	85,675
Trade accounts receivable, net of allowances for doubtful accounts of \$18,832 at June 30, 2015 and \$20,546 at December 31, 2014	325,848	375,579
Prepaid expenses and other current assets	121,273	108,624
Total current assets	1,090,465	1,105,916
Property and equipment, net of accumulated depreciation of \$242,024 at June 30, 2015 and \$239,607 at December 31, 2014	140,070	125,307
Goodwill	605,265	599,863
Acquired intangible assets, net of accumulated amortization of \$121,854 at June 30, 2015 and \$113,153 at December 31, 2014	176,052	158,267
Other assets, net of accumulated amortization of \$33,920 at June 30, 2015 and \$30,276 at December 31, 2014	61,098	62,206
Total assets	\$2,072,950	\$ 2,051,559
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$393,817	\$ 445,984
Accrued expenses and other current liabilities	393,071	336,361
Current portion of capital lease obligations	2,241	2,216
Short-term debt obligations and current maturities of long-term debt obligations	14,653	11,156
Income taxes payable	11,695	19,248
Deferred revenue	32,342	33,916
Total current liabilities	847,819	848,881
Debt obligations, net of current portion	415,455	410,368
Capital lease obligations, net of current portion	3,739	2,148
Deferred income taxes	46,210	38,959
Other long-term liabilities	18,492	18,391
Total liabilities	1,331,715	1,318,747
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; 56,979,239 issued at June 30, 2015 and 56,464,187 issued at December 31, 2014	1,140	1,129
Additional paid-in-capital	970,162	955,715
	(138,472 )	(133,788 )

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Treasury stock, at cost, 4,939,904 shares at June 30, 2015 and 4,867,420 shares at December 31, 2014

Retained earnings	39,606	5,619
Accumulated other comprehensive loss	(132,747 )	(97,922 )
Total Euronet Worldwide, Inc. stockholders' equity	739,689	730,753
Noncontrolling interests	1,546	2,059
Total equity	741,235	732,812
Total liabilities and equity	\$2,072,950	\$ 2,051,559

See accompanying notes to the unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited, in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues	\$425,148	\$395,462	\$820,310	\$748,777
Operating expenses:				
Direct operating costs	258,079	242,637	509,436	468,975
Salaries and benefits	64,760	60,368	125,088	113,942
Selling, general and administrative	38,616	40,981	72,650	73,852
Depreciation and amortization	16,513	17,348	33,793	33,498
Total operating expenses	377,968	361,334	740,967	690,267
Operating income	47,180	34,128	79,343	58,510
Other income (expense):				
Interest income	494	627	1,103	1,159
Interest expense	(6,094)	(2,442)	(11,792)	(4,430)
Loss from unconsolidated affiliates	—	(31)	—	(31)
Foreign currency exchange loss, net	(5,104)	(3,087)	(18,056)	(4,356)
Other gains	388	—	388	—
Other expense, net	(10,316)	(4,933)	(28,357)	(7,658)
Income before income taxes	36,864	29,195	50,986	50,852
Income tax expense	(10,343)	(8,707)	(17,340)	(14,431)
Net income	26,521	20,488	33,646	36,421
Net loss attributable to noncontrolling interests	288	14	341	103
Net income attributable to Euronet Worldwide, Inc.	\$26,809	\$20,502	\$33,987	\$36,524
Earnings per share attributable to Euronet Worldwide, Inc. stockholders:				
Basic	\$0.52	\$0.40	\$0.66	\$0.71
Diluted	\$0.50	\$0.38	\$0.64	\$0.69
Weighted average shares outstanding:				
Basic	51,935,757	51,675,775	51,804,459	51,231,997
Diluted	53,658,504	53,773,759	53,492,580	53,279,782

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)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$26,521	\$20,488	\$33,646	\$36,421
Translation adjustment	20,400	4,137	(34,940 )	7,336
Comprehensive (loss) income	46,921	24,625	(1,294 )	43,757
Comprehensive loss attributable to noncontrolling interests	239	26	456	114
Comprehensive income (loss) attributable to Euronet Worldwide, Inc.	\$47,160	\$24,651	\$(838 )	\$43,871

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)

	Six Months Ended	
	June 30,	
	2015	2014
Net income	\$33,646	\$36,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,793	33,498
Share-based compensation	6,415	6,511
Unrealized foreign exchange loss, net	18,056	4,356
Deferred income taxes	(665)	(2,896)
Loss from unconsolidated affiliates	—	31
Accretion of convertible debt discount and amortization of debt issuance costs	6,066	583
Changes in working capital, net of amounts acquired:		
Income taxes payable, net	(5,424)	(1,113)
Restricted cash	19,359	16,574
Inventory — PINs and other	22,012	24,720
Trade accounts receivable	42,704	53,423
Prepaid expenses and other current assets	(14,726)	5,637
Trade accounts payable	(33,814)	(69,469)
Deferred revenue	304	(2,298)
Accrued expenses and other current liabilities	29,909	(4,598)
Changes in noncurrent assets and liabilities	(707)	1,744
Net cash provided by operating activities	156,928	103,124
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(29,264)	(83,408)
Purchases of property and equipment	(34,396)	(29,268)
Purchases of other long-term assets	(3,347)	(2,922)
Other, net	799	206
Net cash used in investing activities	(66,208)	(115,392)
Cash flows from financing activities:		
Proceeds from issuance of shares	4,629	5,914
Repurchase of shares	(5,143)	(766)
Borrowings from revolving credit agreements	119,580	1,206,556
Repayments of revolving credit agreements	(116,790)	(1,008,600)
Proceeds from long-term debt obligations	—	9,000
Repayments of long-term debt obligations	(2,344)	(2,938)
Repayments of capital lease obligations	(1,689)	(1,231)
Borrowings from short-term debt obligations, net	1,474	3,597
Other, net	481	(2,154)
Net cash provided by financing activities	198	209,378
Effect of exchange rate changes on cash and cash equivalents	(20,853)	1,434
Increase in cash and cash equivalents	70,065	198,544
Cash and cash equivalents at beginning of period	468,010	209,826
Cash and cash equivalents at end of period	\$538,075	\$408,370

Supplemental disclosure of cash flow information:

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Interest paid during the period	\$5,050	\$3,314
Income taxes paid during the period	\$21,510	\$17,655
Supplemental disclosure of non-cash investing and financing activities:		
Equity issued in connection with acquisitions	\$2,962	\$56,554
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. (together with its subsidiaries, the “Company” or “Euronet”) is a leading electronic payments provider. Euronet offers payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Euronet’s primary product offerings include comprehensive automated teller machine (“ATM”), point-of-sale (“POS”), card outsourcing, card issuing and merchant acquiring services; electronic distribution of prepaid mobile airtime and other electronic payment products; and global money transfer services.

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 on a consolidated basis the financial position of the Company as of June 30, 2015, the results of its operations for the three and six months ended June 30, 2015 and 2014 and cash flows for the six months ended June 30, 2015 and 2014. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2014, including the notes thereto, set forth in the Company’s 2014 Annual Report on Form 10-K. Certain amounts in prior years have been reclassified to conform to the current year’s presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Significant items subject to such estimates and assumptions include computing income taxes, estimating the useful lives and potential impairment of long-lived assets and goodwill, as well as allocating the purchase price to assets acquired and liabilities assumed in acquisitions and revenue recognition. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

Seasonality

Euronet’s EFT Processing Segment experiences its heaviest demand for dynamic currency conversion services during the third quarter of the fiscal year, coinciding with tourism season. Additionally, the EFT Processing and epay Segments are impacted by seasonality during the fourth quarter and first quarter of each year due to higher transaction levels during the holiday season and lower levels following the holiday season. Seasonality in the Money Transfer Segment varies by regions of the world. In most markets, Euronet usually experiences increased demand for money transfer services from the month of May through the fourth quarter of each year, coinciding with the increase in worker migration patterns and various holidays, and experiences its lowest transaction levels during the first quarter of each year.

(2) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently Issued

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-11, Inventory (“ASU 2015-11”), which simplifies the valuation of inventory by using the lower of cost or net realizable value. ASU 2015-11 will become effective for the Company on January 1, 2017 and early adoption is permitted. The guidance is to be applied on a prospective basis. The adoption of ASU 2015-11 is not expected to have a significant impact on the Company’s financial position, results of operations or cash flows.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest ("ASU 2015-03"), which requires that transaction costs related to the issuance of debt be deducted from the carrying value of the financial liability and not recorded as separate assets. ASU 2015-03 will become effective for the Company on January 1, 2016 and early adoption is permitted. The guidance is to be applied on a retrospective basis. Euronet has debt issuance costs which will be reclassified upon adoption of the guidance, but it is not expected to have a significant impact on the Company's financial position and it will have no impact upon the Company's results of operations or cash flows.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of

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promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of the effective date of the new revenue recognition standard. The new standard will become effective for the Company on January 1, 2018 and the Company has the option to adopt it effective 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 an adoption date, a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

**(3) STOCKHOLDERS' EQUITY****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 options to purchase the Company's common stock, assumed vesting of restricted stock and the assumed conversion of the Company's convertible debentures. The following table provides the computation of diluted weighted average number of common shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Computation of diluted weighted average shares outstanding:				
Basic weighted average shares outstanding	51,935,757	51,675,775	51,804,459	51,231,997
Incremental shares from assumed exercise of stock options and vesting of restricted stock	1,722,747	2,097,984	1,688,121	2,047,785
Diluted weighted average shares outstanding	53,658,504	53,773,759	53,492,580	53,279,782

The table includes the impact of all stock options and restricted stock that are dilutive to the Company's weighted average common shares outstanding during the three and six months ended June 30, 2015 and 2014. The calculation of diluted earnings 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 620,000 and 888,000 for the three and six months ended June 30, 2015, respectively, and approximately 674,000 for both the three and six months ended June 30, 2014.

During the six months ended June 30, 2015, the Company had convertible notes outstanding that, if converted, would have had a potentially dilutive effect on its common stock. At issuance, the Company stated its intent to settle any conversion of these notes by paying cash for the principal value and issuing common stock for any conversion value in excess of the principal value. As of June 30, 2015, and currently, the Company maintains the intent and ability to settle any conversion as stated. Accordingly, the convertible notes would only have a dilutive effect if the market price per share of common stock exceeds the conversion price per share of common stock. Therefore, according to Accounting Standards Codification ("ASC") Topic 260, Earnings per Share, these notes were not dilutive to earnings per share for the three and six months ended June 30, 2015. See Note 7, Debt Obligations, for more information about the convertible notes.

**Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss consists entirely of foreign currency translation adjustments. The Company recorded a foreign currency translation gain of \$20.4 million and a loss of \$34.9 million for the three and six months ended June 30, 2015, respectively, and gains of \$4.1 million and \$7.3 million for the three and six months ended June 30, 2014, respectively. There were no reclassifications of foreign currency translation into the consolidated statements of income for the three and six months ended June 30, 2015 and 2014.



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## (4) ACQUISITION

On June 17, 2015, the Company completed the acquisition of all of the capital stock of IME (M) Sdn Bhd and certain affiliated companies ("IME") pursuant to a Share Purchase Agreement (the "Purchase Agreement") among the Company and the selling shareholders of IME (the "Sellers"). IME is a leading Malaysian-based money transfer provider and provides the Money Transfer Segment with immediate entry into the Asian and Middle East send markets.

Under the terms of the Purchase Agreement, the Sellers received purchase consideration (the "Purchase Consideration") of \$79.6 million in cash and 49,941 shares of Euronet common stock, with a fair value at date of acquisition of \$3.0 million. A portion of the Purchase Consideration was placed in escrow at closing as security for the Sellers' indemnification and other obligations under the Purchase Agreement. Any Purchase Consideration remaining in escrow will be released to the Sellers at various defined dates over five years following the closing date, net of any pending indemnification or other claims under the Purchase Agreement.

The Purchase Consideration was allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. The valuation of the acquired net assets remains preliminary while management completes its valuation, particularly the valuation of acquired intangible assets. None of the goodwill or intangible asset amounts are expected to be deductible for income tax purposes. Pro-forma results of operations, assuming this acquisition was made at the beginning of the earliest period presented, have not been presented because the effect of this acquisition was not material to the Company's results. The net assets of the IME and its results from operations are included in the Money Transfer Segment's results. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

(in thousands)	As of June 17, 2015
Cash and cash equivalents	\$33,229
Other current assets	17,052
Intangible assets	35,130
Other long-term assets	5,253
Total assets acquired	90,664
Trade accounts payable	(1,894 )
Accrued expenses and other current liabilities	(1,555 )
Settlement obligations and customer deposits	(27,700 )
Deferred tax liabilities	(9,122 )
Other long-term liabilities	(858 )
Total liabilities assumed	(41,129 )
Goodwill	33,092
Net assets acquired	\$82,627

The intangible assets of IME are being amortized on a straight-line basis, and the estimated fair values consist of the following:

(in thousands)	Fair Value	Estimated Useful Life
Customer relationships	\$33,940	8 years
Trade names	650	2 years
Non-compete agreements	540	5 years
Total intangible assets	\$35,130	



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A summary of acquired intangible assets and goodwill activity for the six months ended June 30, 2015 is presented below:

(in thousands)	Acquired Intangible Assets	Goodwill	Total Intangible Assets
Balance as of December 31, 2014	\$ 158,267	\$ 599,863	\$ 758,130
Increases (Decreases):			
Acquisition	35,130	33,092	68,222
Amortization	(11,446 )	—	(11,446 )
Other (primarily changes in foreign currency exchange rates)	(5,899 )	(27,690 )	(33,589 )
Balance as of June 30, 2015	\$ 176,052	\$ 605,265	\$ 781,317

Estimated amortization expense on intangible assets with finite lives, before income taxes, as of June 30, 2015, is expected to total \$14.3 million for the remainder of 2015, \$19.0 million for 2016, \$17.1 million for 2017, \$15.0 million for 2018, \$14.3 million for 2019 and \$13.9 million for 2020.

The Company's annual goodwill impairment test is performed during the fourth quarter of its fiscal year. The annual impairment test for the year ended December 31, 2014 resulted in no impairment charge.

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 the estimates or assumptions included in the 2014 annual impairment test could change, which may result in the Company recording material non-cash impairment charges during the year in which these changes take place.

**(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

(in thousands)	As of June 30, 2015	December 31, 2014
Accrued expenses	\$ 112,689	\$ 97,115
Money transfer settlement obligations	184,934	137,285
Accrued amounts due to mobile operators and other content providers	46,751	64,839
Derivative liabilities	47,422	36,439
Deferred income taxes	1,275	683
Total	\$ 393,071	\$ 336,361

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## (7) DEBT OBLIGATIONS

A summary of debt obligation activity for the six months ended June 30, 2015 is presented below:

(in thousands)	Revolving Credit Facilities	Other Debt Obligations	Capital Leases	1.5% Convertible Debentures Due 2044	Term Loan A	Total
Balance as of December 31, 2014	\$5,316	\$ 6,035	\$4,364	\$ 337,986	\$72,187	\$425,888
Increases (decreases):						
Net borrowings (repayments)	1,743	3,807	1,719	—	(2,344 )	4,925
Accretion	—	—	—	4,882	—	4,882
Capital lease interest	—	—	173	—	—	173
Foreign currency exchange gain	962	(466 )	(276 )	—	—	220
Balance as of June 30, 2015	8,021	9,376	5,980	342,868	69,843	436,088
Less — current maturities	—	(8,559 )	(2,241 )	—	(6,094 )	(16,894 )
Long-term obligations as of June 30, 2015	\$8,021	\$ 817	\$3,739	\$ 342,868	\$63,749	\$419,194

## Credit Facility

As of June 30, 2015, the Company had a \$675 million senior secured credit facility (the "Credit Facility") consisting of a \$600 million revolving credit facility and a \$75 million term loan ("Term Loan A"), which had been reduced to \$69.8 million through principal amortization payments. The Credit Facility expires April 9, 2019.

Interest on borrowings under the revolving credit facility and Term Loan A varies based upon the Company's consolidated total leverage ratio, as defined in the Company's credit agreement, and during the second quarter of 2015 was based on a margin over the London Inter-Bank Offered Rate ("LIBOR") rate or a margin over a base rate, as selected by the Company, with the applicable margin ranging from 1.375% to 2.375% for LIBOR loans or 0.375% to 1.375% for base rate loans. Accordingly, the weighted average interest rate for borrowings outstanding under the Company's revolving credit facility and Term Loan A was 10.75% and 1.81%, respectively, as of June 30, 2015, excluding amortization of deferred financing costs.

## Convertible Debt

On October 30, 2014, the Company completed the sale of \$402.5 million of Convertible Senior Notes due 2044 ("Convertible Notes"). The Convertible Notes have an interest rate of 1.5% per annum payable semi-annually in April and October, and are convertible into shares of Euronet Common Stock at a conversion price of approximately \$72.18 per share if certain conditions are met (relating to the closing prices of Euronet Common Stock exceeding certain thresholds for specified periods). Holders of the Convertible Notes have the option to require the Company to purchase their notes at par on October 1, 2020, and have additional options to require the Company to purchase their notes at par on October 1, 2024, 2029, 2034, and 2039, or upon a change in control of the Company. In connection with the issuance of the Convertible Notes, the Company recorded \$10.7 million in debt issuance costs, which are being amortized through October 1, 2020.

In accordance with Accounting Standards Codification ("ASC") 470-20-30-27, proceeds from the issuance of convertible debt are allocated between debt and equity components so that debt is discounted to reflect the Company's nonconvertible debt borrowing rate. ASC 470-20-35-13 requires the debt discount to be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The allocation resulted in an increase to additional paid in capital of \$66.1 million.

Contractual interest expense was \$1.5 million and \$3.0 million for the three and six months ended June 30, 2015. Accretion expense was \$2.5 million and \$4.9 million for the three and six months ended June 30, 2015. The effective interest rate was 4.7% for the three and six months ended June 30, 2015. As of June 30, 2015, the unamortized discount was \$59.6 million, and will be amortized through October 1, 2020.

## (8) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES



The Company is exposed to foreign currency exchange risk resulting from (i) the collection of funds or the settlement of money transfer transactions in currencies other than the U.S. Dollar, (ii) derivative contracts written to its customers in connection with providing cross-currency money transfer services and (iii) short-term borrowings that are payable in currencies other than the U.S. dollar. The Company enters into foreign currency derivative contracts, primarily foreign currency forwards and cross-

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currency swaps, to minimize its exposure related to fluctuations in foreign currency exchange rates. As a matter of Company policy, the derivative instruments used in these activities are economic hedges and are not designated as hedges under ASC Topic 815, Derivatives and Hedging, primarily due to either the relatively short duration of the contract term or the effects of fluctuations in currency exchange rates are reflected concurrently in earnings for both the derivative instrument and the transaction and have an offsetting effect.

## Foreign currency exchange contracts - Ria Operations

In the United States, the Company uses short-duration foreign currency forward contracts, generally with maturities up to 14 days, to offset the fluctuation in foreign currency exchange rates on the collection of money transfer funds between initiation of a transaction and its settlement. Due to the short duration of these contracts and the Company's credit profile, the Company is generally not required to post collateral with respect to these foreign currency forward contracts. Most derivative contracts executed with counterparties in the U.S. are governed by an International Swaps and Derivatives Association agreement that includes standard netting arrangements; therefore, asset and liability positions from forward contracts and all other foreign exchange transactions with the same counterparty are net settled upon maturity.

As of June 30, 2015, the Company had foreign currency forward contracts outstanding in the U.S. with a notional value of \$158 million, primarily in Australian dollars, Canadian dollars, British pounds, euros and Mexican pesos.

## Foreign currency exchange contracts - HiFX Operations

HiFX writes derivative instruments, primarily foreign currency forward contracts and cross-currency swaps, mostly with counterparties comprised of individuals and small-to-medium size businesses and derives a currency margin from this activity as part of its operations. HiFX aggregates its foreign currency exposures arising from customer contracts and hedges the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties. Foreign exchange revenues from HiFX's total portfolio of positions were \$15.9 million and \$31.6 million for the three and six months ended June 30, 2015, respectively, and \$7.1 million for the three months ended June 30, 2014. All of the derivative contracts used in the Company's HiFX operations are economic hedges and are not designated as hedges under ASC Topic 815, Derivatives and Hedging. The duration of these derivative contracts is generally less than one year.

The fair value of HiFX's total portfolio of positions can change significantly from period to period based on, among other factors, market movements and changes in customer contract positions. HiFX manages counterparty credit risk (the risk that counterparties will default and not make payments according to the terms of the agreements) on an individual counterparty basis. It mitigates this risk by entering into contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. HiFX does not expect any significant losses from counterparty defaults.

The aggregate equivalent U.S. dollar notional amounts of foreign currency derivative customer contracts held by the Company in its HiFX operations as of June 30, 2015 was approximately \$770 million. The majority of customer contracts are written in major currencies such as the euro, Canadian dollar, British pound, and Australian dollar.

## Balance Sheet Presentation

The following table summarizes the fair value of the derivative instruments as recorded in the Consolidated Balance Sheets as of the dates below:

	Asset Derivatives		Liability Derivatives			
	Balance Sheet Location	Fair Value June 30, 2015	December 31, 2014	Balance Sheet Location	Fair Value June 30, 2015	December 31, 2014
(in thousands)						
Derivatives not designated as hedging instruments	Other current assets	\$50,881	\$ 41,151		\$(47,422 )	\$(36,439 )

Foreign currency  
exchange contracts

Other current  
liabilities

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The following tables summarize the gross and net fair value of derivative assets and liabilities as of June 30, 2015 and December 31, 2014 (in thousands):

## Offsetting of Derivative Assets

As of June 30, 2015	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amounts
Derivatives subject to a master netting arrangement or similar agreement	\$50,881	\$—	\$50,881	\$(31,897 )	\$(7,757 )	\$11,227
As of December 31, 2014						
Derivatives subject to a master netting arrangement or similar agreement	\$41,151	\$—	\$41,151	\$(28,113 )	\$(5,279 )	\$7,759

## Offsetting of Derivative Liabilities

As of June 30, 2015	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments	Cash Collateral Paid	Net Amounts
Derivatives subject to a master netting arrangement or similar agreement	\$(47,422 )	\$—	\$(47,422 )	\$31,897	\$5,401	\$(10,124 )
As of December 31, 2014						
Derivatives subject to a master netting arrangement or similar agreement	\$(36,439 )	\$—	\$(36,439 )	\$28,113	\$176	\$(8,150 )

## Income Statement Presentation

The following tables summarize the location and amount of gains and losses of derivatives in the Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014:

(in thousands)	Location of Gain (Loss) Recognized in Income on Derivative Contracts	Amount of Loss Recognized in Income on Derivative Contracts (a)			
		Three Months Ended		Six Months Ended	
		June 30, 2015	2014	June 30, 2015	2014
		\$(1,923 )	\$(406 )	\$(34 )	\$(1,153 )

Foreign currency exchange contracts - Ria Operations      Foreign currency exchange loss, net

(a) The Company enters into derivative contracts such as foreign currency exchange forwards and cross-currency swaps as part of its HiFX operations. These derivative contracts are excluded from this table as they are part of the broader disclosure of foreign currency exchange revenues for this business discussed above. See Note 9, Fair Value Measurements, for the determination of the fair values of derivatives.

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## (9) FAIR VALUE MEASUREMENTS

Fair value measurements used in the unaudited consolidated financial statements are based upon the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the inputs that market participants would use in pricing.

The following table details financial assets and liabilities measured and recorded at fair value on a recurring basis:

As of June 30, 2015					
(in thousands)	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Assets					
Foreign currency exchange contracts	Other current assets	\$—	\$50,881	\$—	\$50,881
Liabilities					
Foreign currency exchange contracts	Other current liabilities	\$—	\$(47,422)	\$—	\$(47,422)
As of December 31, 2014					
(in thousands)	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Assets					
Foreign currency exchange contracts	Other current assets	\$—	\$41,151	\$—	\$41,151
Liabilities					
Foreign currency exchange contracts	Other current liabilities	\$—	\$(36,439)	\$—	\$(36,439)

## Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents, accounts receivable, trade accounts payable, accrued expenses and other current obligations approximate their fair values because of the relatively short-term maturities of these financial instruments. The carrying values of the Company's long-term debt (other than the Convertible Notes), including the current portion, approximate fair value because interest is primarily based on LIBOR, which resets at various intervals of less than one year. The Company estimates the fair value of the Convertible Notes using quoted prices in inactive markets for identical liabilities (Level 2). As of June 30, 2015 and December 31, 2014, the fair values of the convertible notes were \$448.5 million and \$408.0 million, respectively, with carrying values of \$342.9 million and \$338.0 million, respectively.

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## (10) SEGMENT INFORMATION

The Company'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:

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 cash withdrawal services, ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, dynamic currency conversion and other value added services. Through this segment, the Company also offers a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.

Through the ePAY Segment, the Company provides distribution, processing and collection services for prepaid mobile airtime and other electronic payment products in Europe, the Middle East, Asia Pacific, the United States and South America.

Through the Money Transfer Segment, the Company provides global money transfer services under the brand names Ria and HiFX. Ria provides global consumer-to-consumer money transfer services through a network of sending agents, Company-owned stores and a Company-owned website, disbursing money transfers through a worldwide correspondent network. HiFX offers account-to-account international payment services to high-income individuals and small-to-medium sized businesses. The Company also offers customers bill payment services, payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services, foreign currency exchange services and mobile top-up. The Company provides cash management solutions and foreign currency risk management services to small-to-medium sized businesses under the brand name HiFM.

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

The following tables present the Company's reportable segment results for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the Three Months Ended June 30, 2015				
	EFT Processing	ePAY	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$93,075	\$166,824	\$165,651	\$(402)	\$425,148
Operating expenses:					
Direct operating costs	45,075	126,519	86,860	(375)	258,079
Salaries and benefits	11,598	12,382	33,301	7,479	64,760
Selling, general and administrative	6,610	9,015	21,772	1,219	38,616
Depreciation and amortization	7,754	2,728	5,964	67	16,513
Total operating expenses	71,037	150,644	147,897	8,390	377,968
Operating income (expense)	\$22,038	\$16,180	\$17,754	\$(8,792)	\$47,180

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## For the Three Months Ended June 30, 2014

(in thousands)	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$89,472	\$181,979	\$124,318	\$(307)	) \$395,462
Operating expenses:					
Direct operating costs	41,823	138,522	62,558	(266)	) 242,637
Salaries and benefits	11,877	13,906	27,943	6,642	60,368
Selling, general and administrative	6,549	11,186	17,546	5,700	40,981
Depreciation and amortization	7,645	4,179	5,458	66	17,348
Total operating expenses	67,894	167,793	113,505	12,142	361,334
Operating income (expense)	\$21,578	\$14,186	\$10,813	\$(12,449)	) \$34,128

## For the Six Months Ended June 30, 2015

(in thousands)	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$167,755	\$342,749	\$310,457	\$(651)	) \$820,310
Operating expenses:					
Direct operating costs	84,204	263,736	162,080	(584)	) 509,436
Salaries and benefits	22,604	24,427	64,394	13,663	125,088
Selling, general and administrative	12,380	17,028	39,733	3,509	72,650
Depreciation and amortization	15,159	5,805	12,692	137	33,793
Total operating expenses	134,347	310,996	278,899	16,725	740,967
Operating income (expense)	\$33,408	\$31,753	\$31,558	\$(17,376)	) \$79,343

## For the Six Months Ended June 30, 2014

(in thousands)	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$164,077	\$367,043	\$218,318	\$(661)	) \$748,777
Operating expenses:					
Direct operating costs	79,161	281,863	108,530	(579)	) 468,975
Salaries and benefits	22,972	27,500	51,253	12,217	113,942
Selling, general and administrative	12,651	20,273	33,691	7,237	73,852
Depreciation and amortization	14,941	8,325	10,091	141	33,498
Total operating expenses	129,725	337,961	203,565	19,016	690,267
Operating income (expense)	\$34,352	\$29,082	\$14,753	\$(19,677)	) \$58,510

The following table presents the Company's property and equipment and total assets by reportable segment:

(in thousands)	Property and Equipment, net as of		Total Assets as of	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
EFT Processing	\$84,254	\$72,749	\$537,011	\$390,398
epay	23,693	24,859	563,114	754,448
Money Transfer	31,972	27,528	940,638	837,360



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Corporate Services, Eliminations and Other	151	171	32,187	69,353
Total	\$140,070	\$125,307	\$2,072,950	\$2,051,559

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(11) INCOME TAXES

The Company's effective income tax rates were 28.1% and 29.8% for the three months ended June 30, 2015 and 2014, respectively, and 34.0% and 28.4% for the six months ended June 30, 2015 and 2014, respectively.

The Company's effective income tax rates for the three and six months ended June 30, 2015 and 2014 were lower than the applicable statutory income tax rate of 35% primarily because of the Company's U.S. income tax positions. The Company does not have a history of significant taxable income in the U.S.; therefore, the Company has recorded a valuation allowance against its U.S. federal tax net operating loss carryforwards. Accordingly, in instances when the Company's U.S. legal entities generate pre-tax U.S. GAAP income, no income tax expense is recognized to the extent there are net operating loss carryforwards to offset pre-tax U.S. GAAP income. Additionally, the effective income tax rate for the six months ended June 30, 2015 was significantly influenced by foreign currency exchange losses, most of which are not currently deductible for income tax purposes, resulting in a higher effective income tax rate.

(12) COMMITMENTS

As of June 30, 2015, the Company had \$74.9 million of stand-by letters of credit/bank guarantees issued on its behalf, of which \$42.5 million are outstanding under the revolving credit facility. The remaining stand-by letters of credit/bank guarantees are collateralized by \$2.9 million of cash deposits held by the respective issuing banks.

Under certain circumstances, Euronet grants guarantees in support of obligations of subsidiaries. As of June 30, 2015, the Company had granted off balance sheet guarantees for cash in various ATM networks amounting to \$14.5 million over the terms of the cash supply agreements and performance guarantees amounting to approximately \$24.4 million over the terms of agreements with the customers.

Once each of Euronet's subsidiaries reaches a certain size, it is required under the Credit Agreement to provide a guarantee of all or a portion of the outstanding obligations under the Credit Agreement depending upon whether the subsidiary is a domestic or foreign entity.

From time to time, the Company enters into agreements with commercial counterparties 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. Euronet's 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 is not recorded on the Company's Consolidated Balance Sheets. As of June 30, 2015, the balance of ATM network cash for which the Company was responsible was approximately \$420 million. The Company maintains insurance policies to mitigate this exposure;

- In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for losses suffered by its customers and other parties as a result of the breach of its computer systems, including in particular, losses arising from fraudulent transactions made using information stolen through its processing systems. The Company maintains insurance policies to mitigate this exposure;

In connection with the license of proprietary systems to customers, the Company 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 of operating units or assets made by Euronet, the Company has agreed to indemnify the seller against third-party claims made against the seller relating to the 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; and

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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 carrying out their respective duties under such agreements. 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. The Company has obtained surety bonds in compliance with money transfer licensing requirements of the applicable governmental authorities. 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, 2015 or December 31, 2014.

(13) LITIGATION AND CONTINGENCIES

Contingencies

Unclaimed property compliance - In September 2013, the Company entered into a voluntary disclosure agreement with the Secretary of State of the State of Delaware to determine compliance with Delaware unclaimed property laws. Types of property under examination include, but are not limited to, certain unmatched receipts from money transfer agents, payroll checks, accounts payable checks and accounts receivable credits for the period 1996 through 2007. In June 2015, the Company reached an agreement with the State of Delaware regarding unclaimed property for this period and through periods ending in 2009 and remitted an amount which was not material to the Company's consolidated financial condition or results of operations.

Legal Proceedings

From time to time, the Company is a party to legal or regulatory proceedings arising in the ordinary course of its business. Currently, there are no legal proceeding or regulatory findings that management believes, either individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial condition or results of operations. In accordance with U.S. GAAP, the Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

(14) SUBSEQUENT EVENT

On July 2, 2015, the Company completed the acquisition of all of the capital stock of XE Corporation, a global leader in digital foreign exchange information. XE Corporation is a Canadian company which operates the XE.com and x-rates.com websites, providing currency-related data and international payments services.

Under the terms of the purchase, the Company paid purchase consideration of \$90.6 million in cash and 642,912 shares of Euronet common stock, with a fair value at date of acquisition of \$40.1 million.

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

The terms "Euronet," the "Company," "we" and "us" as used herein refer to Euronet Worldwide, Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Generally, the words "believe," "expect," "anticipate," "intend," "estimate," "will" and similar expressions identify forward-looking statements. However, the absence of these words or similar expressions does not mean the statement is not forward-looking. All statements other than statements of historical facts included in this document are forward-looking statements, including, but not limited to, statements regarding the following:

- our business plans and financing plans and requirements;
- trends affecting our business plans and financing plans and requirements;
- trends affecting our business;
- the adequacy of capital to meet our capital requirements and expansion plans;
- the assumptions underlying our business plans;
- our ability to repay indebtedness;
- our estimated capital expenditures;
- the potential outcome of loss contingencies;
- our expectations regarding the closing of any pending acquisitions;
- business strategy;
- government regulatory action;
- technological advances; and
- projected costs and revenues.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct.

Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may materially differ from those in the forward-looking statements as a result of various factors, including, but not limited to, conditions in world financial markets and general economic conditions, including economic conditions in specific countries and regions; technological developments affecting the market for our products and services; our ability to successfully introduce new products and services; foreign currency exchange rate fluctuations; the effects of any breach of our computer systems, including our financial processing networks; our ability to renew existing contracts at profitable rates; changes in fees payable for transactions performed for cards bearing international logos or over switching networks such as card transactions on ATMs; our ability to comply with increasingly stringent regulatory requirements, including anti-money laundering, anti-terrorism and anti-bribery requirements; changes in laws and regulations affecting our business, including immigration laws; changes in our relationships with, or in fees charged by, our business partners; competition; the outcome of claims and other loss contingencies affecting Euronet; and those other factors referred to above and as set forth and more fully described in Part I, Item 1A — Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2014. Our Annual Report on Form 10-K is available on the SEC's EDGAR website at [www.sec.gov](http://www.sec.gov), and a copy may also be obtained by contacting the Company. All forward-looking statements made in this Form 10-Q speak only as of the date of this report. We do not intend, and do not undertake any obligation, to update any forward-looking statements to reflect future events or circumstances after the date of such statements.



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OVERVIEW

COMPANY OVERVIEW, GEOGRAPHIC LOCATIONS AND PRINCIPAL PRODUCTS AND SERVICES

We are 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”), card outsourcing, card issuing and merchant acquiring services, software solutions, electronic distribution of prepaid mobile airtime and other electronic payment products, and global money transfer services. We operate in the following three segments:

The EFT Processing Segment, which processes transactions for a network of 21,980 ATMs and approximately 89,000 POS terminals across Europe, the Middle East and Asia Pacific. We provide comprehensive electronic payment solutions consisting of ATM cash withdrawal and deposit services, ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, dynamic currency conversion, and other value added services. Through this segment, we also offer a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.

The epay Segment, which provides distribution, processing and collection services for prepaid mobile airtime and other electronic payment products. We operate a network of approximately 676,000 POS terminals providing electronic processing of prepaid mobile airtime top-up services and other electronic payment products in Europe, the Middle East, Asia Pacific, the United States and South America. We also provide vouchers and physical gift fulfillment services in Europe.

The Money Transfer Segment, which provides global consumer-to-consumer money transfer services, primarily under the brand name Ria and global account-to-account money transfer services under the brand name HiFX. We offer services under the brand name Ria, through a network of sending agents, Company-owned stores (primarily in North America and Europe) and our Ria website ([riamoneytransfer.com](http://riamoneytransfer.com)), disbursing money transfers through a worldwide correspondent network that includes approximately 272,000 locations. We offer services under the brand name HiFX through our HiFX websites ([www.hifx.co.uk](http://www.hifx.co.uk) and [www.hifx.com.au](http://www.hifx.com.au)) and HiFX customer service representatives. In addition to money transfers, we also offer customers bill payment services (primarily in the U.S.), payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services for a wide variety of issued checks, along with competitive foreign currency exchange services and mobile top-up. Through our HiFM brand, we offer cash management solutions and foreign currency risk management services to small-to-medium sized businesses.

We have five processing centers in Europe, four in Asia Pacific and two in North America. We have 30 principal offices in Europe, 12 in Asia Pacific, seven in North America, three in the Middle East, two in South America and one in Africa. Our executive offices are located in Leawood, Kansas, USA. With approximately 70% of our revenues denominated in currencies other than the U.S. dollar, any significant changes in foreign currency exchange rates will likely have a significant impact on our results of operations.

SOURCES OF REVENUES AND CASH FLOW

Euronet primarily earns revenues and income based on ATM management fees, transaction fees, commissions and foreign currency exchange margin. Each operating segment’s sources of revenues are described below.

EFT Processing Segment — Revenues in the EFT Processing Segment, which represented approximately 22% and 20% of our total consolidated revenues for the second quarter and first half of 2015, respectively, are primarily derived from fees charged for transactions made by cardholders on our proprietary network of ATMs, fixed management fees and transaction fees we charge to customers for operating ATMs and processing debit and credit cards under outsourcing and cross-border acquiring agreements, foreign currency exchange margin on dynamic currency conversion transactions, and fees received for other value added services such as advertising, prepaid telecommunication recharges, bill payment, and money transfers provided over ATMs. Revenues in this segment are also derived from license fees, professional services and maintenance fees for proprietary application software and sales of related hardware.





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epay Segment — Revenues in the epay Segment, which represented approximately 39% and 42% of our total consolidated revenues for the second quarter and first half of 2015, respectively, are primarily derived from commissions or processing fees received from mobile phone operators for the processing and distribution of prepaid mobile airtime and commissions earned from the distribution of other electronic payment products, vouchers, and physical gifts. Due to certain provisions in our mobile phone operator agreements, the operators have the ability to reduce the overall commission paid on top-up transactions. 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 certain markets, retailers may negotiate directly with the mobile phone operators and prepaid content providers for their own commission rates, which also limits our ability to pass through reductions in commissions. Agreements with mobile operators and prepaid content providers are important to the success of our business. These agreements permit us to distribute prepaid mobile airtime and other electronic payment products to the end consumer. Other electronic payment products offered by this segment include prepaid long distance calling card plans, prepaid Internet plans, prepaid debit cards, gift cards, vouchers, transport payments, lottery payments, bill payment, money transfer and digital content such as music, games and software.

Money Transfer Segment — Revenues in the Money Transfer Segment, which represented approximately 39% and 38% of our total consolidated revenues for the second quarter and first half of 2015, respectively, are primarily derived from transaction fees, as well as the margin earned from purchasing foreign currency at wholesale exchange rates and selling the foreign currency to customers at retail exchange rates. We have a sending network in place comprised of agents, customer service representatives, Company-owned stores, primarily in North America and Europe, and our websites [riamoneytransfer.com](http://riamoneytransfer.com), [www.hifx.co.uk](http://www.hifx.co.uk) and [www.hifx.com.au](http://www.hifx.com.au), along with a worldwide network of correspondent agents, consisting primarily of financial institutions in the transfer destination countries. Sending and correspondent agents each earn fees for cash collection and distribution services, which are recognized as direct operating costs at the time of sale.

Corporate Services, Eliminations and Other - In addition to operating in our principal operating segments described above, our “Corporate Services, Eliminations and Other” category includes non-operating activity, certain inter-segment eliminations and the cost of providing corporate and other administrative services to the operating segments, including most share-based compensation expense. These services are not directly identifiable with our reportable operating segments.

OPPORTUNITIES AND CHALLENGES

Our expansion plans and opportunities are currently focused on eight primary areas:

- increasing the number of ATMs in our independent ATM networks;
- increasing transactions processed on our network of owned and operated ATMs and POS devices;
- signing new outsourced ATM and POS terminal management contracts;
- expanding value added services in our EFT Processing Segment, including the sale of dynamic currency conversion services to banks and retailers;
- expanding our epay processing network and portfolio of electronic payment products;
- expanding our money transfer services, cross-currency payment products and bill payment network;
- expanding our cash management solutions and foreign currency risk management services; and
- developing our credit and debit card outsourcing business.

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;

our ability to develop products or services, including value added services, to drive increases in transactions and revenues;  
the expansion of our various business lines in markets where we operate and in new markets;  
our entry into additional card acceptance and ATM management agreements with banks;

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- our ability to obtain required licenses in markets we intend to enter or expand services;
- our ability to enter into and renew ATM network cash supply agreements with financial institutions;
- the availability of financing for expansion;
- our ability to efficiently install ATMs contracted under newly awarded outsourcing agreements;
- our ability to renew existing contracts at profitable rates;
- our ability to maintain pricing at current levels or mitigate price reductions in certain markets;
- the impact of reductions in ATM interchange fees;
- our 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.

We consistently evaluate and add prospects to our list of potential ATM outsourcing customers. However, we cannot predict any increase or decrease in the number of ATMs we manage under outsourcing agreements because this depends largely on the willingness of banks to enter into outsourcing contracts with us. Due to the thorough internal reviews and extensive negotiations conducted by existing and prospective banking customers in choosing outsource vendors, the process of entering into or renewing outsourcing agreements can take several months. The process is further complicated by legal and regulatory considerations in local countries. These agreements tend to cover large numbers of ATMs, so significant increases and decreases in our pool of managed ATMs could result from the acquisition or termination of one or more of these management contracts. Therefore, the timing of both current and new contract revenues is uncertain and unpredictable.

Software products are an integral part of our product lines, and our investment in research, development, delivery and customer support reflects our ongoing commitment to an expanded customer base.

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

- our ability to maintain and renew existing agreements, and to negotiate new agreements in additional markets with mobile phone operators, content providers, agent financial institutions and retailers;
- our ability to use existing expertise and relationships with mobile operators, content providers and retailers to our advantage;
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