EURONET WORLDWIDE INC
Form 10-Q
November 03, 2006

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

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

For the quarterly period ended September 30, 2006

OR

o **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	**74-2806888**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

4601 COLLEGE BOULEVARD, SUITE 300
LEAWOOD, KANSAS 66211
(Address of principal executive offices)
(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 þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of the issuer s common stock, $0.02 par value, outstanding as of October 31, 2006 was 37,281,342 shares.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EURONET WORLDWIDE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2006 (unaudited)	December 31, 2005 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 255,366	$ 219,932
Restricted cash	88,300	73,942
Inventory PINs and other	35,253	25,595
Trade accounts receivable, net of allowances for doubtful accounts of $2,651 at September 30, 2006 and $1,995 at December 31, 2005	164,171	166,451
Deferred income taxes, net	3,593	1,812
Prepaid expenses and other current assets	19,490	21,211
Total current assets	566,173	508,943
Property and equipment, net of accumulated depreciation of $83,110 at September 30, 2006 and $66,644 at December 31, 2005	51,648	44,852
Goodwill	274,918	267,195
Acquired intangible assets, net of accumulated amortization of $18,348 at September 30, 2006 and $11,918 at December 31, 2005	48,712	50,724
Deferred income taxes	6,186	6,994
Other assets, net of accumulated amortization of $9,600 at September 30, 2006 and $7,721 at December 31, 2005	16,604	15,644
Total assets	$ 964,241	$ 894,352
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 204,675	$ 202,655
Accrued expenses and other current liabilities	89,230	77,101
Current portion of capital lease obligations	6,170	5,431
Short-term debt obligations and current maturities of long-term debt obligations	9,232	22,893
Income taxes payable	10,962	8,207
Deferred income taxes	3,180	3,023
Deferred revenue	9,858	8,013
Total current liabilities	333,307	327,323
Debt obligations, net of current portion	321,643	315,000
Capital lease obligations, net of current portion	12,749	12,229

Deferred income taxes		23,766		25,157
Other long-term liabilities		1,631		1,161
Minority interest		7,766		7,129
Total liabilities		700,862		687,999
Stockholders equity:				
Preferred Stock, $0.02 par value. Authorized 10,000,000 shares; none issued				
Common Stock, $0.02 par value. Authorized 90,000,000 shares at September 30, 2006 and 60,000,000 shares at December 31, 2005; issued and outstanding 37,245,861 shares at September 30, 2006 and 35,776,431 at December 31, 2005		746		717
Additional paid-in-capital		334,245		312,025
Treasury stock		(196)		(196)
Subscriptions receivable				(124)
Accumulated deficit		(73,893)		(104,787)
Restricted reserve		796		776
Accumulated other comprehensive income (loss)		1,681		(2,058)
Total stockholders equity		263,379		206,353
Total liabilities and stockholders equity	$	964,241	$	894,352

See accompanying notes to the unaudited consolidated financial statements.

(1) Adjusted to include the retroactively applied effects of SFAS No. 123R share-based compensation expense; see Note 1 General, Note 2 Significant Accounting Policies and Practices and Note 7 Stock Plans to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005(1)**	**2006**	**2005(1)**
Revenues:				
EFT Processing	$ 33,212	$ 26,315	$ 95,498	$ 76,245
Prepaid Processing	121,114	107,669	346,260	299,530
Software Solutions	7,327	3,406	20,668	11,066
Total revenues	161,653	137,390	462,426	386,841
Operating expenses:				
Direct operating costs	112,488	95,779	319,602	270,308
Salaries and benefits	18,676	15,086	56,164	43,269
Selling, general and administrative	9,971	8,163	27,684	22,498
Depreciation and amortization	7,388	5,773	21,270	16,443
Total operating expenses	148,523	124,801	424,720	352,518
Operating income	13,130	12,589	37,706	34,323
Other income (expense):				
Interest income	3,682	1,013	9,791	3,325
Interest expense	(3,802)	(1,695)	(11,055)	(4,900)
Income from unconsolidated affiliates	197	254	555	906
Foreign exchange gain (loss), net	1,090	854	5,420	(6,703)
Other income (expense), net	1,167	426	4,711	(7,372)
Income before income taxes and minority interest	14,297	13,015	42,417	26,951
Income tax expense	(3,638)	(3,929)	(10,807)	(11,230)
Minority interest	(243)	(182)	(716)	(583)
Net income	10,416	8,904	30,894	15,138
Translation adjustment	2,224	(617)	3,739	(6,199)
Comprehensive income	$ 12,640	$ 8,287	$ 34,633	$ 8,939
Earnings per share basic:				
Earnings per share	$ 0.28	$ 0.25	$ 0.84	$ 0.43
Basic weighted average shares outstanding	37,230,518	35,404,949	36,938,652	34,806,093

Earnings per share diluted (see Note 3):				
Earnings per share	$ 0.26	$ 0.23	$ 0.78	$ 0.41
Diluted weighted average shares outstanding	42,524,973	41,584,931	42,462,863	36,747,479

See accompanying notes to the unaudited consolidated financial statements.

(1) Adjusted to include the retroactively applied effects of SFAS No. 123R share-based compensation expense; see Note 1 General, Note 2 Significant Accounting Policies and Practices, Note 3 Earnings Per Share and Note 7 Stock Plans to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2006	**2005 (1)**
Net income	$ 30,894	$ 15,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,270	16,443
Share-based compensation	5,832	3,966
Unrealized foreign exchange (gain) loss, net	(4,841)	4,207
Gain on disposal of property and equipment	(165)	(143)
Deferred income tax expense (benefit)	(3,176)	656
Income assigned to minority interest	716	583
Income from unconsolidated affiliates	(555)	(906)
Amortization of debt issuance expense	1,581	1,005
Changes in working capital, net of amounts acquired:		
Income taxes payable	2,916	1,350
Restricted cash	(8,997)	(7,181)
Inventory PINs and other	(8,793)	(6,867)
Trade accounts receivable	10,945	(27,310)
Prepaid expenses and other current assets	3,318	(9,427)
Trade accounts payable	(10,741)	40,555
Deferred revenue	1,750	(4,786)
Accrued expenses and other current liabilities	9,336	12,067
Other, net	(670)	(97)
Net cash provided by operating activities	50,620	39,253
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(2,312)	(99,343)
Proceeds from sale of property and equipment	732	389
Purchases of property and equipment	(15,586)	(11,445)
Purchases of other long-term assets	(3,106)	(995)
Net cash used in investing activities	(20,272)	(111,394)
Cash flows from financing activities:		
Proceeds from issuance of shares	12,456	7,459
Net borrowings (repayments) on short-term debt obligations and revolving credit agreements	(5,941)	1,039
Repayment of capital lease obligations	(4,639)	(3,983)
Other, net	(196)	(901)

Net cash provided by financing activities		1,680		3,614
Effect of exchange differences on cash		3,406		(2,873)
Increase (decrease) in cash and cash equivalents		35,434		(71,400)
Cash and cash equivalents at beginning of period		219,932		124,198
Cash and cash equivalents at end of period	$	255,366	$	52,798
Interest paid during the period	$	7,366	$	3,314
Income taxes paid during the period		8,862		10,183

See accompanying notes to the unaudited consolidated financial statements.

(1) Adjusted to include the retroactively applied effects of SFAS No. 123R share-based compensation expense; see Note 1 General, Note 2 Significant Accounting Policies and Practices and Note 7 Stock Plans to the unaudited consolidated financial statements.

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

(1) GENERAL

Basis of presentation

The accompanying unaudited consolidated financial statements of Euronet Worldwide, Inc. and its subsidiaries (Euronet or the Company) have been prepared from the records of the Company, in conformity with U.S. generally accepted accounting principles (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 September 30, 2006, the results of its operations for the three- and nine-month periods ended September 30, 2006 and 2005 and cash flows for the nine-month periods ended September 30, 2006 and 2005.

The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Euronet for the year ended December 31, 2005, including the notes thereto, set forth in the Company s Form 10-K. Certain prior year amounts have been reclassified to conform to the current period consolidated financial statement presentation.

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, (SFAS No. 123R) on January 1, 2006. The Company elected to adopt SFAS No. 123R utilizing the modified retrospective application method and, accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have been adjusted to reflect the fair value method of expensing prescribed by SFAS No. 123R. See Note 2 Significant Accounting Policies and Practices and Note 7 Stock Plans for further discussion.

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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for the three- and nine-month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

(2) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Revenue recognition-EFT Processing

Certain of the Company s non-cancelable customer contracts provide for the receipt of up-front fees from the customer and/or decreasing or increasing fee schedules over the agreement term for substantially the same level of services to be provided by the Company. As prescribed in SEC Staff Accounting Bulletin (SAB) 101, Revenue Recognition in Financial Statements, as amended by SAB 104, Revenue Recognition, the Company recognizes revenue under these contracts based on proportional performance of services over the term of the contract. This generally results in straight-line (i.e. consistent value per period) revenue recognition of the contracts total cash flows, including any up-front payment received from the customer.

Share-based compensation

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. For equity classified awards, SFAS No. 123R requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation is earned (requisite service period). The Company elected to adopt the modified retrospective application method as provided by SFAS No. 123R and, accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have been adjusted to reflect the fair value method of expensing prescribed by SFAS No. 123R. The Company believes that this method achieves the highest level of clarity and comparability among the presented periods.

As a result of adopting SFAS No. 123R, the Company s deferred tax assets related to U.S. Federal and state net operating loss carryforwards, reported for U.S. GAAP purposes, and the Company s deferred tax assets related to deferred compensation, increased by an estimated $8.1 million as of December 31, 2005. This estimate remains preliminary while management completes its analysis. However, since the Company records a valuation allowance for its entire U.S. net deferred tax asset position, upon adoption of SFAS No. 123R, the amount of net deferred tax assets did not, and is not expected to, change. The Company has chosen to use the Black-Scholes pricing model for the determination of fair value for stock option grants. The amount of future compensation expense related to awards of nonvested shares or nonvested share units (restricted stock) is based on the market price for Euronet Common Stock at the grant date. The grant date is the date at which all key terms and conditions of the grant have been determined and the Company becomes contingently obligated to transfer assets to the employee who renders the requisite service, generally the date at which grants are approved by the Company s Board of Directors or Compensation Committee thereof. Share-based compensation expense for awards with service conditions only is generally recognized as an expense of the Corporate division on a straight-line basis over the requisite service period.

For awards with performance conditions, expense is recognized on a graded attribution method. The graded attribution method results in expense recognition on a straight-line basis over the requisite service period for each separately vesting portion of an award, as if the award was, in-substance, multiple awards. See Note 7 Stock Plans for further disclosure.

For a description of other significant accounting policies of the Company, see Note 3 to the Audited Consolidated Financial Statements as of and for the year ended December 31, 2005, set forth in the Company s Annual Report on Form 10-K.

Recent accounting pronouncements

In March 2006, the Emerging Issues Task Force (EITF) issued EITF 06-3, How Taxes Collected and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). If significant, this issue requires companies to disclose the policy of presenting such taxes in the income statement on either a gross or net basis. The provisions of this issue will be effective for the Company beginning January 1, 2007.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 is an interpretation of SFAS No. 109, Accounting for Income Taxes, and seeks to reduce the diversity in practice associated with certain aspects of the measurement and recognition related to accounting for income taxes. This interpretation also requires expanded disclosure with respect to uncertain tax positions. The provisions of FIN 48 will be effective for the Company beginning January 1, 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Statement applies whenever other accounting pronouncements require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. The provisions of SFAS No. 157 will be effective for the Company beginning January 1, 2008.

The Company is in the process of determining the effect, if any, that the adoption of the above accounting pronouncements will have on its financial statements.

(3) EARNINGS PER SHARE

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(dollar amounts in thousands)	**2006**	**2005(1)**	**2006**	**2005(1)**
Basic weighted average shares outstanding	37,230,518	35,404,949	36,938,652	34,806,093
Additional shares from assumed conversion of 1.625% convertible debentures	4,162,950	4,162,950	4,162,950	
Weighted average shares issuable in connection with acquisition obligations (See Note 4 - Acquisitions)			48,685	
Incremental shares from assumed conversion of stock options and restricted stock (1)	1,131,505	2,017,032	1,312,576	1,941,386
	42,524,973	41,584,931	42,462,863	36,747,479

Diluted weighted average shares outstanding								
Net income	$	10,416	$	8,904	$	30,894	$	15,138
Add: interest expense of 1.625% convertible debentures		797		797		2,391		
Earnings available to common stockholders	$	11,213	$	9,701	$	33,285	$	15,138

(1) As a result of the adoption of SFAS No. 123R, the computation of incremental shares from the assumed conversion of stock options changed. The incremental shares previously reported for the three- and nine-month periods ended September 30, 2005 were 2,438,734 and 2,344,846, respectively.

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For the three- and nine-month periods ended September 30, 2006 and 2005, the average market price of Euronet common stock exceeded the exercise price of all stock options outstanding.

The Company has $140 million of 1.625% convertible debentures due 2024 and $175 million of 3.50% convertible debentures due 2025 outstanding that, if converted, would have a potentially dilutive effect on the Company s stock. These debentures are convertible into 4.2 million shares of Common Stock for the $140 million 1.625% issue, and 4.3 million shares of Common Stock for the $175 million 3.50% issue, initially in December 2009 and October 2012, respectively, or earlier upon the occurrence of certain conditions. As required by EITF Issue No. 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings per Share, if dilutive, the impact of the contingently issuable shares must be included in the calculation of diluted net income 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. Under the if-converted method, the assumed conversion of the 1.625% convertible debentures was dilutive for the three-month periods ended September 30, 2006 and 2005 and for the nine-month period ended September 30, 2006 and, accordingly, the impact has been included in the above computation of diluted weighted average shares outstanding for these periods. The assumed conversion of the 1.625% convertible debentures was anti-dilutive for the nine-month period ended September 30, 2005 and, accordingly, the impact has been excluded from the above computation for the nine-month period ended September 30, 2005. Under the if-converted method, the assumed conversion of the 3.50% convertible debentures was anti-dilutive for the three- and nine-month periods ended September 30, 2006 and, accordingly, the impact has been excluded from the above computation of dilutive weighted average shares outstanding. The 3.50% convertible debentures were not outstanding for the three- and nine-month periods ended September 30, 2005.

(4) ACQUISITIONS

In accordance with SFAS No. 141, Business Combinations, the Company allocates the purchase price of its acquisitions to the tangible assets, liabilities and intangible assets acquired based on estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The fair value assigned to intangible assets acquired is supported by valuations using estimates and assumptions provided by management. For certain large or unique acquisitions management engaged an appraiser to assist in the valuation.

2006 Acquisitions:

Acquisition of Essentis Limited

In January 2006, the Company completed the acquisition of the assets of Essentis Limited (Essentis) for approximately $3.0 million, which was comprised of $0.9 million in cash and approximately $2.1 million in assumed liabilities. Essentis is a U.K. company that owns and develops software packages that enhance Euronet s outsourcing and software offerings to banks. Essentis is reported in the Company s Software Solutions Segment. The Company s allocation of the purchase price to the fair values of acquired tangible and intangible assets is preliminary and remains so while management completes its valuation of the fair value of the net assets acquired. The following table summarizes the estimated allocation of the purchase price to the fair values of the acquired tangible and intangible assets at the acquisition date:

(dollar amounts in thousands)	Estimated Life	Essentis
Property and equipment	various	$ 573
Software	5 years	2,467
Assets acquired		$ 3,040

There are no potential additional purchase price or escrow arrangements associated with the acquisition of Essentis.

2005 Acquisitions:

During 2005, the Company completed seven acquisitions for an aggregate purchase price of approximately $119.0 million. The Company s allocation of the purchase price to the fair values of acquired tangible and intangible assets for certain acquisitions are preliminary and remain so while management completes its valuation of the fair value of the net assets acquired. The following table summarizes the allocation of the purchase price, including $2.9 million paid in prior years for acquisitions accounted for as step acquisitions, to the fair values of the acquired tangible and intangible assets at the acquisition dates.

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(dollar amounts in thousands)	Estimated Life	Telerecarga	Other Acquisitions	Total
Current assets		$	$ 3,841	$ 3,841
Property and equipment	various	1,415	1,412	2,827
Customer relationships	8 or 9 years	10,295	14,703	24,998
Software	5 years	655	900	1,555
Patent	7 years		1,699	1,699
Trade name	2 years	254		254
Non-compete agreements	5 years	147		147
Deferred income tax asset			1,055	1,055
Goodwill	Indefinite	42,144	53,417	95,561
Assets acquired		54,910	77,027	131,937
Current liabilities			(687)	(687)
Deferred income tax liability		(3,892)	(5,442)	(9,334)
Net assets acquired		$ 51,018	$ 70,898	$ 121,916

Acquisition of Telerecarga S.L.

In March 2005, to supplement the Company s prepaid processing business in Spain, Euronet purchased 100% of the assets of Telerecarga S.L. (Telerecarga), a Spanish company that distributes prepaid mobile airtime and other prepaid products via Point of Sale (POS) terminals throughout Spain. The purchase price of 38.1 million (approximately $51.0 million) was settled through the assumption of 25.4 million (approximately $34.0 million) in liabilities and cash payments of 12.7 million (approximately $17.0 million).

Other acquisitions

During 2005, Euronet completed six other acquisitions described below for a total purchase price of $68.0 million, comprised of $39.6 million in cash, 864,131 shares of Euronet Common Stock (including 109,542 shares issued in settlement of contingent payment arrangements discussed below), valued at $23.6 million and $4.8 million in liabilities assumed. Additionally, the purchase price for acquisitions accounted for as step acquisitions, in accordance with SFAS No. 141, include $2.9 million paid in prior years.

In December 2005, EFT Services Holding B.V. (a wholly-owned subsidiary of Euronet) purchased 6.25% of Euronet Services Private Limited, the Company s subsidiary in India (Euronet India), increasing its share ownership of Euronet India to 100%. Euronet India is included in the Company s EFT Processing Segment and, since the Company s ownership share previously exceeded 50%, has been a consolidated subsidiary since inception.

In two separate transactions, one in April 2005 and one in December 2005, EFT Services Holding B.V. purchased an additional 64% of Europlanet a.d. (Europlanet), a Serbian company, increasing its share ownership in Europlanet to 100%. Europlanet is an ATM and card processor that owns, operates and manages a network of ATMs and POS terminals. Upon obtaining a controlling interest in April 2005, Euronet began consolidating Europlanet s financial position and results of operations. Euronet s $0.2 million share of dividends declared prior to acquiring a controlling ownership share of Europlanet was recognized as income from unconsolidated affiliates during 2005.

In October 2005, Euronet EFT Services Hellas EPE (a wholly-owned subsidiary of Euronet) acquired all of the share capital of Instreamline S.A. (Instreamline), a Greek company that provides card processing services in addition to debit card and transaction gateway switching services in Greece and the Balkan region. Instreamline will complement the Company s EFT Processing Segment. Subsequent to the acquisition, Instreamline was renamed Euronet Card Services Greece.

In May 2005, Euronet acquired all of the outstanding membership interests in Continental Transfer, LLC and a wholly-owned subsidiary, TelecommUSA, Limited (TelecommUSA), a company based in North Carolina. TelecommUSA, now known as Euronet Payments and Remittance, Inc. (Euronet Payments & Remittance), provides money transfer services, primarily to consumers in the U.S. to destinations in Latin America, and bill payment services within the U.S. This acquisition launched the Company s money transfer and bill payment business.

In March 2005, to enhance the Company s U.S. prepaid processing business, PaySpot (a wholly-owned subsidiary of Euronet) purchased substantially all of the assets of Dynamic Telecom, Inc. (Dynamic Telecom), a company based in Iowa. Dynamic Telecom s distribution network in convenience store chains throughout the U.S. provides several types of prepaid products including wireless, long distance and gift cards via POS terminals.

In March 2005, the Company exercised its option to acquire an additional 41% of the shares of ATX Software, Ltd. (ATX) and increased its share ownership in ATX to 51%. Euronet originally acquired a 10% share in ATX in May 2004. Euronet s $0.1 million share of dividends declared prior to acquiring the additional 41% ownership share of ATX was recognized as income from unconsolidated affiliates during 2005. Upon the increase in ownership from 10% to 51%, Euronet consolidated ATX s financial position and results of operations.

In connection with these six acquisitions, $3.5 million in cash remains in escrow, subject to the achievement of certain performance criteria. This cash has been reflected in the purchase price allocation because the Company has determined beyond a reasonable doubt that the performance criteria will be met. During the nine-month period ending September 30, 2006, the Company issued 109,542 shares of Euronet Common Stock, valued at $4.1 million, in settlement of contingent payment arrangements associated with the Company s 2005 acquisitions. This settlement was recorded as an increase in goodwill.

Pro Forma results:

The following unaudited pro forma financial information presents the condensed combined results of operations of Euronet for the three- and nine-month periods ended September 30, 2005, as if the acquisitions described above had occurred January 1, 2005. An adjustment was made to the combined results of operations, reflecting amortization of purchased intangible assets, net of tax, which would have been recorded if the acquisitions had occurred on January 1, 2005. Because the Company s 2006 acquisition was effective January 1, 2006, there is no pro-forma financ