

EURONET WORLDWIDE INC

Form 10-Q

August 04, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

Commission File Number: 001-31648

EURONET WORLDWIDE, INC.

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

Delaware

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 ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of the issuer's common stock, \$0.02 par value, outstanding as of July 31, 2011 was 51,285,615 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)

|                                                                                                                                             | As of<br>June 30,<br>2011<br>(unaudited) | December 31,<br>2010 |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                               |                                          |                      |
| Current assets:                                                                                                                             |                                          |                      |
| Cash and cash equivalents                                                                                                                   | \$ 225,506                               | \$ 187,235           |
| Restricted cash                                                                                                                             | 112,640                                  | 108,717              |
| Inventory — PINs and other                                                                                                                  | 67,188                                   | 97,225               |
| Trade accounts receivable, net of allowances for doubtful accounts of \$16,105 at June 30, 2011 and \$14,924 at December 31, 2010           | 280,394                                  | 288,765              |
| Prepaid expenses and other current assets                                                                                                   | 47,647                                   | 46,072               |
| Total current assets                                                                                                                        | 733,375                                  | 728,014              |
| Property and equipment, net of accumulated depreciation of \$192,482 at June 30, 2011 and \$166,094 at December 31, 2010                    | 96,561                                   | 91,527               |
| Goodwill                                                                                                                                    | 470,819                                  | 445,713              |
| Acquired intangible assets, net of accumulated amortization of \$126,304 at June 30, 2011 and \$109,726 at December 31, 2010                | 90,902                                   | 95,819               |
| Other assets, net of accumulated amortization of \$23,088 at June 30, 2011 and \$20,805 at December 31, 2010                                | 52,459                                   | 48,299               |
| Total assets                                                                                                                                | \$ 1,444,116                             | \$ 1,409,372         |
| <b>LIABILITIES AND EQUITY</b>                                                                                                               |                                          |                      |
| Current liabilities:                                                                                                                        |                                          |                      |
| Trade accounts payable                                                                                                                      | \$ 291,811                               | \$ 324,466           |
| Accrued expenses and other current liabilities                                                                                              | 213,339                                  | 218,006              |
| Current portion of capital lease obligations                                                                                                | 1,752                                    | 2,429                |
| Short-term debt obligations and current maturities of long-term debt obligations                                                            | 2,674                                    | 2,507                |
| Income taxes payable                                                                                                                        | 17,105                                   | 13,177               |
| Deferred revenue                                                                                                                            | 8,596                                    | 10,775               |
| Total current liabilities                                                                                                                   | 535,277                                  | 571,360              |
| Debt obligations, net of current portion                                                                                                    | 288,886                                  | 286,105              |
| Capital lease obligations, net of current portion                                                                                           | 2,215                                    | 2,363                |
| Deferred income taxes                                                                                                                       | 21,921                                   | 21,958               |
| Other long-term liabilities                                                                                                                 | 8,705                                    | 8,709                |
| Total liabilities                                                                                                                           | 857,004                                  | 890,495              |
| Equity:                                                                                                                                     |                                          |                      |
| Euronet Worldwide, Inc. stockholders' equity:                                                                                               |                                          |                      |
| Preferred Stock, \$0.02 par value. 10,000,000 shares authorized; none issued                                                                | —                                        | —                    |
| Common Stock, \$0.02 par value. 90,000,000 shares authorized; 51,773,407 issued at June 30, 2011 and 51,462,195 issued at December 31, 2010 | 1,035                                    | 1,029                |
| Additional paid-in-capital                                                                                                                  | 759,682                                  | 752,209              |
| Treasury stock, at cost, 500,693 shares at June 30, 2011 and 482,839 shares at December 31, 2010                                            | (5,574)                                  | (5,212)              |
| Accumulated deficit                                                                                                                         | (212,338)                                | (241,511)            |

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|                                                                            |             |              |
|----------------------------------------------------------------------------|-------------|--------------|
| Restricted reserve                                                         | 1,068       | 974          |
| Accumulated other comprehensive income                                     | 35,530      | 5,122        |
| Total Euronet Worldwide, Inc. stockholders' equity                         | 579,403     | 512,611      |
| Noncontrolling interests                                                   | 7,709       | 6,266        |
| Total equity                                                               | 587,112     | 518,877      |
| Total liabilities and equity                                               | \$1,444,116 | \$ 1,409,372 |
| See accompanying notes to the unaudited consolidated financial statements. |             |              |

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## EURONET WORLDWIDE, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

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

|                                                                                          | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|------------------------------------------------------------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                                                                          | 2011                           | 2010       | 2011                         | 2010       |
| Revenues                                                                                 | \$ 279,802                     | \$ 244,228 | \$ 542,395                   | \$ 494,231 |
| Operating expenses:                                                                      |                                |            |                              |            |
| Direct operating costs                                                                   | 175,392                        | 160,836    | 346,276                      | 326,697    |
| Salaries and benefits                                                                    | 43,758                         | 31,448     | 80,093                       | 63,620     |
| Selling, general and administrative                                                      | 27,073                         | 21,850     | 50,286                       | 41,043     |
| Depreciation and amortization                                                            | 14,779                         | 13,552     | 29,723                       | 28,100     |
| Total operating expenses                                                                 | 261,002                        | 227,686    | 506,378                      | 459,460    |
| Operating income                                                                         | 18,800                         | 16,542     | 36,017                       | 34,771     |
| Other income (expense):                                                                  |                                |            |                              |            |
| Interest income                                                                          | 1,472                          | 572        | 2,587                        | 1,127      |
| Interest expense                                                                         | (5,171)                        | (5,031)    | (10,506)                     | (9,985)    |
| Income from unconsolidated affiliates                                                    | 366                            | 447        | 840                          | 1,001      |
| Legal settlement                                                                         | —                              | —          | 1,000                        | —          |
| Foreign currency exchange gain (loss), net                                               | 3,652                          | (9,341)    | 12,937                       | (14,423)   |
| Other income (expense), net                                                              | 319                            | (13,353)   | 6,858                        | (22,280)   |
| Income before income taxes                                                               | 19,119                         | 3,189      | 42,875                       | 12,491     |
| Income tax expense                                                                       | (6,825)                        | (4,344)    | (12,950)                     | (10,131)   |
| Net income (loss)                                                                        | 12,294                         | (1,155)    | 29,925                       | 2,360      |
| Less: Net income attributable to noncontrolling interests                                | (405)                          | (328)      | (752)                        | (1,017)    |
| Net income (loss) attributable to Euronet Worldwide, Inc.                                | \$ 11,889                      | \$ (1,483) | \$ 29,173                    | \$ 1,343   |
| Earnings (loss) per share attributable to Euronet Worldwide, Inc. stockholders — basic   | \$0.23                         | \$(0.03)   | \$0.57                       | \$0.03     |
| Basic weighted average shares outstanding                                                | 51,219,681                     | 50,914,453 | 51,144,154                   | 50,857,812 |
| Earnings (loss) per share attributable to Euronet Worldwide, Inc. stockholders — diluted | \$0.23                         | \$(0.03)   | \$0.56                       | \$0.03     |
| Diluted weighted average shares outstanding                                              | 51,957,942                     | 50,914,453 | 51,950,613                   | 51,777,392 |
| 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,         |             |
|                                                                            | 2011               | 2010        |   | 2011             | 2010        |
| Net income (loss)                                                          | \$ 12,294          | \$ (1,155)  | ) | \$ 29,925        | \$ 2,360    |
| Other comprehensive income (loss), net of tax:                             |                    |             |   |                  |             |
| Translation adjustment                                                     | 12,577             | (41,652)    | ) | 30,943           | (63,631)    |
| Comprehensive income (loss)                                                | 24,871             | (42,807)    | ) | 60,868           | (61,271)    |
| Comprehensive (income) loss attributable to noncontrolling interests       | (571)              | ) 401       |   | (1,287)          | ) 115       |
| Comprehensive income (loss) attributable to Euronet Worldwide, Inc.        | \$ 24,300          | \$ (42,406) | ) | \$ 59,581        | \$ (61,156) |
| 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, |             |
|--------------------------------------------------------------------------------------|---------------------------|-------------|
|                                                                                      | 2011                      | 2010        |
| Net income                                                                           | \$29,925                  | \$2,360     |
| Adjustments to reconcile net income to net cash provided by operating activities:    |                           |             |
| Depreciation and amortization                                                        | 29,723                    | 28,100      |
| Share-based compensation                                                             | 5,244                     | 4,391       |
| Unrealized foreign exchange (gain) loss, net                                         | (12,937)                  | ) 14,625    |
| Deferred income taxes                                                                | (1,597)                   | ) (2,089)   |
| Income from unconsolidated affiliates                                                | (840)                     | ) (1,001)   |
| Accretion of convertible debentures discount and amortization of debt issuance costs | 4,680                     | 4,332       |
| Changes in working capital, net of amounts acquired:                                 |                           |             |
| Income taxes payable, net                                                            | 3,041                     | (2,839)     |
| Restricted cash                                                                      | 333                       | (5,230)     |
| Inventory — PINs and other                                                           | 33,323                    | 14,531      |
| Trade accounts receivable                                                            | 22,174                    | 34,211      |
| Prepaid expenses and other current assets                                            | 671                       | (2,340)     |
| Trade accounts payable                                                               | (43,949)                  | ) (3,737)   |
| Deferred revenue                                                                     | (2,321)                   | ) (2,684)   |
| Accrued expenses and other current liabilities                                       | (8,054)                   | ) 3,764     |
| Changes in noncurrent assets and liabilities                                         | (3,500)                   | ) 1,644     |
| Net cash provided by operating activities                                            | 55,916                    | 88,038      |
| Cash flows from investing activities:                                                |                           |             |
| Acquisitions, net of cash acquired                                                   | (3,399)                   | ) —         |
| Purchases of property and equipment                                                  | (16,743)                  | ) (12,427)  |
| Purchases of other long-term assets                                                  | (1,540)                   | ) (2,618)   |
| Other, net                                                                           | 425                       | 473         |
| Net cash used in investing activities                                                | (21,257)                  | ) (14,572)  |
| Cash flows from financing activities:                                                |                           |             |
| Proceeds from issuance of shares                                                     | 1,861                     | 1,311       |
| Borrowings from revolving credit agreements                                          | 127,700                   | 108,000     |
| Repayments of revolving credit agreements                                            | (127,700)                 | ) (147,172) |
| Repayments of long-term debt obligations                                             | (1,000)                   | ) (2,227)   |
| Repayments of capital lease obligations                                              | (1,647)                   | ) (1,255)   |
| Payment of acquisition contingent consideration                                      | (5,455)                   | ) —         |
| Cash dividends paid to noncontrolling interests stockholders                         | —                         | (1,676)     |
| Other, net                                                                           | 614                       | 728         |
| Net cash used in financing activities                                                | (5,627)                   | ) (42,291)  |
| Effect of exchange rate changes on cash and cash equivalents                         | 9,239                     | (12,116)    |
| Increase in cash and cash equivalents                                                | 38,271                    | 19,059      |
| Cash and cash equivalents at beginning of period                                     | 187,235                   | 183,528     |
| Cash and cash equivalents at end of period                                           | \$225,506                 | \$202,587   |
| Interest paid during the period                                                      | \$5,826                   | \$5,643     |
| Income taxes paid during the period                                                  | 12,471                    | 15,191      |
| See accompanying notes to the unaudited consolidated financial statements.           |                           |             |



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

(1) GENERAL

Organization

Euronet Worldwide, Inc. and its subsidiaries (the “Company” or “Euronet”) is a leading global electronic payments provider. Euronet offers payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. The Company's primary product offerings include comprehensive automated teller machine (“ATM”), point-of-sale (“POS”) and card outsourcing services; electronic distribution of prepaid mobile airtime and other electronic payment products, and global consumer 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 the financial position of the Company as of June 30, 2011, and the results of its operations for the three- and six-month periods ended June 30, 2011 and 2010 and cash flows for the six-month periods ended June 30, 2011 and 2010.

The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Euronet for the year ended December 31, 2010, including the notes thereto, set forth in the Company’s 2010 Annual Report on Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for the three- and six-month periods ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Recent accounting pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. Under ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income

either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity. Finally, ASU 2011-05 requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The requirements apply to both annual and interim financial statements and should be applied retrospectively. ASU 2011-05 is effective for public entities for fiscal years beginning after December 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 is not expected to materially affect the Company's financial statements.

Money transfer settlement obligations

Money transfer settlement obligations are recorded in accrued expenses and other current liabilities on the Company’s unaudited Consolidated Balance Sheets and consist of amounts owed by the Company to money transfer recipients. As of June 30, 2011, the Company’s money transfer settlement obligations were \$36.1 million.



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

|                                                                                  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|----------------------------------------------------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                                                                  | 2011                           | 2010       | 2011                         | 2010       |
| Computation of diluted weighted average shares outstanding:                      |                                |            |                              |            |
| Basic weighted average shares outstanding                                        | 51,219,681                     | 50,914,453 | 51,144,154                   | 50,857,812 |
| Incremental shares from assumed conversion of stock options and restricted stock | 738,261                        | —          | 806,459                      | 919,580    |
| Diluted weighted average shares outstanding                                      | 51,957,942                     | 50,914,453 | 51,950,613                   | 51,777,392 |

The table includes all stock options and restricted stock that are dilutive to Euronet's weighted average common shares outstanding during the period. For the three months ended June 30, 2010, the Company incurred a net loss; therefore, diluted loss per share is the same as basic loss per share for the period. The calculation of diluted earnings (loss) per share excludes stock options or shares of restricted stock that are anti-dilutive to the Company's weighted average common shares outstanding of approximately 1,817,000 and 1,751,000 for the three- and six-month periods ended June 30, 2011, respectively, and of approximately 4,963,000 and 2,252,000 for the three- and six-month periods ended June 30, 2010, respectively.

The Company has convertible debentures that, if converted, would have a potentially dilutive effect on the Company's stock. As required by Accounting Standards Codification ("ASC") Topic 260, Earnings per Share, if dilutive, the impact of the contingently issuable shares must be included in the calculation of diluted earnings per share under the "if-converted" method, regardless of whether the conditions upon which the debentures would be convertible into shares of the Company's common stock have been met. The Company's 3.50% debentures are convertible into 4.3 million shares of common stock only upon the occurrence of certain conditions. Under the if-converted method, the assumed conversion of the 3.50% debentures was anti-dilutive for the three- and six-month periods ended June 30, 2011 and 2010. The Company's remaining 1.625% convertible debentures outstanding were repurchased in January 2010 and the assumed conversion of the then-outstanding debentures was anti-dilutive for the six-month period ended June 30, 2010.

**(4) GOODWILL AND ACQUIRED INTANGIBLE ASSETS, NET**

A summary of acquired intangible assets and goodwill activity for the six-month period ended June 30, 2011 is presented below:

| (in thousands)                                               | Acquired<br>Intangible<br>Assets | Goodwill  | Total<br>Intangible<br>Assets |
|--------------------------------------------------------------|----------------------------------|-----------|-------------------------------|
| Balance as of December 31, 2010                              | \$95,819                         | \$445,713 | \$541,532                     |
| Increases (decreases):                                       |                                  |           |                               |
| Acquisitions                                                 | 2,888                            | 39        | 2,927                         |
| Amortization                                                 | (11,078)                         | —         | (11,078)                      |
| Other (primarily changes in foreign currency exchange rates) | 3,273                            | 25,067    | 28,340                        |
| Balance as of June 30, 2011                                  | \$90,902                         | \$470,819 | \$561,721                     |

Estimated annual amortization expense on intangible assets with finite lives, before income taxes, as of June 30, 2011, is expected to total \$21.5 million for 2011, \$19.3 million for 2012, \$14.3 million for 2013, \$11.4 million for 2014,

\$6.2 million for 2015 and \$4.6 million for 2016.

The Company's annual goodwill impairment test is performed during the fourth quarter. The Company's annual impairment test for the year ended December 31, 2010 resulted in the Company recording an estimated non-cash goodwill impairment charge of \$70.9 million in the fourth quarter of 2010 related to its epay reporting units in the U.K., Spain and Romania.

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

**(5) DEBT OBLIGATIONS**

A summary of debt obligation activity for the six-month period ended June 30, 2011 is presented below:

| (in thousands)                         | Revolving<br>Credit<br>Facilities | Other Debt<br>Obligations | Capital<br>Leases | 3.5%<br>Convertible<br>Debentures<br>Due 2025 | Term<br>Loans | Total      |
|----------------------------------------|-----------------------------------|---------------------------|-------------------|-----------------------------------------------|---------------|------------|
| Balance at December 31, 2010           | \$—                               | \$607                     | \$4,792           | \$ 161,005                                    | \$ 127,000    | \$ 293,404 |
| Increases (decreases):                 |                                   |                           |                   |                                               |               |            |
| Net repayments                         | —                                 | (158)                     | (1,342)           | —                                             | (1,000)       | (2,500)    |
| Accretion                              | —                                 | —                         | —                 | 3,781                                         | —             | 3,781      |
| Capital lease interest                 | —                                 | —                         | 244               | —                                             | —             | 244        |
| Foreign currency exchange loss         | —                                 | 325                       | 273               | —                                             | —             | 598        |
| Balance at June 30, 2011               | —                                 | 774                       | 3,967             | 164,786                                       | 126,000       | 295,527    |
| Less — current maturities              | —                                 | (774)                     | (1,752)           | —                                             | (1,900)       | (4,426)    |
| Long-term obligations at June 30, 2011 | \$—                               | \$—                       | \$2,215           | \$ 164,786                                    | \$ 124,100    | \$ 291,101 |

The 3.50% convertible debentures had principal amounts outstanding of \$175.0 million and unamortized discounts outstanding of \$10.2 million and \$14.0 million as of June 30, 2011 and December 31, 2010, respectively. The discount will be amortized through October 15, 2012. Interest expense, including contractual interest and discount accretion, was \$3.4 million and \$3.3 million for the three months ended June 30, 2011 and 2010, respectively, and \$6.8 million and \$6.5 million for the six months ended June 30, 2011 and 2010, respectively. The effective interest rate was 8.4% for the three and six months ended June 30, 2011 and 2010.

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

As of June 30, 2011, the Company had foreign currency forward contracts outstanding with a notional value of \$60.5 million, primarily in euros and U.S. dollars, which were not designated as hedges and had a weighted average remaining maturity of 4.1 days. Although the Company enters into foreign currency forward contracts to offset foreign currency exposure related to the notional value of money transfer transactions collected in currencies other than the U.S. dollar, they are not designated as hedges under ASC Topic 815, Derivatives and Hedging. This is mainly due to the relatively short duration of the contracts, typically 1 to 14 days, and the frequency with which the Company enters into them. Due to the short duration of the contracts and the Company's credit profile, the Company is generally not required to post collateral with respect to its foreign currency forward contracts.

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

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The required tabular disclosures for derivative instruments are as follows:

| (in thousands)                                                        | Consolidated<br>Balance<br>Sheet Location | Fair Values of Derivative<br>Instruments as of |                      |
|-----------------------------------------------------------------------|-------------------------------------------|------------------------------------------------|----------------------|
|                                                                       |                                           | June 30,<br>2011                               | December 31,<br>2010 |
| Derivatives not designated as hedging instruments under ASC Topic 815 |                                           |                                                |                      |
|                                                                       |                                           | Asset Derivatives                              |                      |
| Foreign currency derivative contracts — gross gains                   | Cash and cash equivalents                 | \$50                                           | \$ 51                |
| Foreign currency derivative contracts — gross losses                  | Cash and cash equivalents                 | (569 )                                         | (547 )               |
| Total                                                                 |                                           | \$(519 )                                       | \$(496 )             |
|                                                                       |                                           | Liability Derivatives                          |                      |
| Embedded derivative in foreign lease                                  | Other long-term liabilities               | \$(73 )                                        | \$(144 )             |
| Total derivatives                                                     |                                           | \$(592 )                                       | \$(640 )             |

| (in thousands)                                                                                | Location of Gain (Loss)<br>Recognized in Income<br>on Derivative | Amount of Gain (Loss) Recognized<br>in Income on Derivative |         |                              |         |
|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------|---------|------------------------------|---------|
|                                                                                               |                                                                  | Three Months<br>Ended June 30,                              |         | Six Months Ended<br>June 30, |         |
|                                                                                               |                                                                  | 2011                                                        | 2010    | 2011                         | 2010    |
| Derivatives not designated as hedging<br>instruments under ASC Topic 815                      |                                                                  |                                                             |         |                              |         |
| Foreign currency derivative contracts                                                         | Foreign currency<br>exchange gain (loss), net                    | \$(621 )                                                    | \$1,266 | \$(1,754 )                   | \$2,848 |
| Embedded derivative in foreign lease                                                          | Foreign currency<br>exchange gain (loss), net                    | 14                                                          | (41 )   | 71                           | 22      |
| Total                                                                                         |                                                                  | \$(607 )                                                    | \$1,225 | \$(1,683 )                   | \$2,870 |
| See Note 7, Fair Value Measurements, for the determination of the fair values of derivatives. |                                                                  |                                                             |         |                              |         |

**(7) FAIR VALUE MEASUREMENTS**

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

| (in thousands)                                    | As of<br>June 30, 2011 |            | December 31, 2010 |            |
|---------------------------------------------------|------------------------|------------|-------------------|------------|
|                                                   | Carrying<br>Value      | Fair Value | Carrying<br>Value | Fair Value |
| 3.50% convertible debentures, unsecured, due 2025 | (164,786 )             | (175,656 ) | (161,005 )        | (172,267 ) |
| Foreign currency derivative contracts             | (519 )                 | (519 )     | (496 )            | (496 )     |
| Embedded derivative in foreign lease              | (73 )                  | (73 )      | (144 )            | (144 )     |

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

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## (8) SEGMENT INFORMATION

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

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

Through the epay Segment, the Company provides distribution of prepaid mobile airtime and other electronic payment products and collection services in Europe, the Middle East, Asia Pacific, North America and South America.

Through the Money Transfer Segment, the Company provides global consumer-to-consumer money transfer services through a network of sending agents and Company-owned stores (primarily in North America and Europe), disbursing money transfers through a worldwide correspondent network. The Company also offers customers bill payment services, payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services and foreign currency exchange services.

In addition, the Company accounts for non-operating activity, share-based compensation expense, certain intersegment eliminations and the costs of providing corporate and other administrative services to the three segments 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 segment results of the Company's operations for the three- and six-month periods ended June 30, 2011 and 2010:

| (in thousands)                      | For the Three Months Ended June 30, 2011 |           |                |                                            |              |
|-------------------------------------|------------------------------------------|-----------|----------------|--------------------------------------------|--------------|
|                                     | EFT Processing                           | epay      | Money Transfer | Corporate Services, Eliminations and Other | Consolidated |
| Total revenues                      | \$50,378                                 | \$156,479 | \$73,005       | \$(60 )                                    | \$279,802    |
| Operating expenses:                 |                                          |           |                |                                            |              |
| Direct operating costs              | 23,401                                   | 118,554   | 33,497         | (60 )                                      | 175,392      |
| Salaries and benefits               | 8,026                                    | 11,521    | 17,360         | 6,851                                      | 43,758       |
| Selling, general and administrative | 4,502                                    | 8,443     | 12,166         | 1,962                                      | 27,073       |
| Depreciation and amortization       | 5,258                                    | 4,476     | 4,960          | 85                                         | 14,779       |
| Total operating expenses            | 41,187                                   | 142,994   | 67,983         | 8,838                                      | 261,002      |
| Operating income (loss)             | \$9,191                                  | \$13,485  | \$5,022        | \$(8,898 )                                 | \$18,800     |

| (in thousands)                      | For the Three Months Ended June 30, 2010 |           |                |                                            |              |
|-------------------------------------|------------------------------------------|-----------|----------------|--------------------------------------------|--------------|
|                                     | EFT Processing                           | epay      | Money Transfer | Corporate Services, Eliminations and Other | Consolidated |
| Total revenues                      | \$46,488                                 | \$137,689 | \$60,051       | \$—                                        | \$244,228    |
| Operating expenses:                 |                                          |           |                |                                            |              |
| Direct operating costs              | 22,790                                   | 109,754   | 28,292         | —                                          | 160,836      |
| Salaries and benefits               | 6,863                                    | 7,154     | 13,886         | 3,545                                      | 31,448       |
| Selling, general and administrative | 4,116                                    | 7,429     | 8,666          | 1,639                                      | 21,850       |
| Depreciation and amortization       | 4,486                                    | 3,822     | 4,967          | 277                                        | 13,552       |

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|                          |         |         |         |           |            |
|--------------------------|---------|---------|---------|-----------|------------|
| Total operating expenses | 38,255  | 128,159 | 55,811  | 5,461     | 227,686    |
| Operating income (loss)  | \$8,233 | \$9,530 | \$4,240 | \$(5,461) | ) \$16,542 |

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| For the Six Months Ended June 30, 2011 |                   |            |                   |                                                     |              |
|----------------------------------------|-------------------|------------|-------------------|-----------------------------------------------------|--------------|
| (in thousands)                         | EFT<br>Processing | epay       | Money<br>Transfer | Corporate<br>Services,<br>Eliminations<br>and Other | Consolidated |
| Total revenues                         | \$ 94,739         | \$ 311,592 | \$ 136,182        | \$ (118                                             | ) \$ 542,395 |
| Operating expenses:                    |                   |            |                   |                                                     |              |
| Direct operating costs                 | 45,465            | 238,465    | 62,464            | (118                                                | ) 346,276    |
| Salaries and benefits                  | 14,921            | 21,940     | 33,365            | 9,867                                               | 80,093       |
| Selling, general and administrative    | 8,847             | 15,574     | 22,187            | 3,678                                               | 50,286       |
| Depreciation and amortization          | 10,182            | 8,998      | 10,374            | 169                                                 | 29,723       |
| Total operating expenses               | 79,415            | 284,977    | 128,390           | 13,596                                              | 506,378      |
| Operating income (loss)                | \$ 15,324         | \$ 26,615  | \$ 7,792          | \$ (13,714                                          | ) \$ 36,017  |

| For the Six Months Ended June 30, 2010 |                   |            |                   |                                                     |              |
|----------------------------------------|-------------------|------------|-------------------|-----------------------------------------------------|--------------|
| (in thousands)                         | EFT<br>Processing | epay       | Money<br>Transfer | Corporate<br>Services,<br>Eliminations<br>and Other | Consolidated |
| Total revenues                         | \$ 95,054         | \$ 283,069 | \$ 116,108        | \$ —                                                | \$ 494,231   |
| Operating expenses:                    |                   |            |                   |                                                     |              |
| Direct operating costs                 | 46,718            | 225,353    | 54,626            | —                                                   | 326,697      |
| Salaries and benefits                  | 13,104            | 15,479     | 28,083            | 6,954                                               | 63,620       |
| Selling, general and administrative    | 7,870             | 12,660     | 17,610            | 2,903                                               | 41,043       |
| Depreciation and amortization          | 9,410             | 7,977      | 10,057            | 656                                                 | 28,100       |
| Total operating expenses               | 77,102            | 261,469    | 110,376           | 10,513                                              | 459,460      |
| Operating income (loss)                | \$ 17,952         | \$ 21,600  | \$ 5,732          | \$ (10,513                                          | ) \$ 34,771  |

**(9) GUARANTEES**

As of June 30, 2011, the Company had \$102.8 million of stand-by letters of credit/bank guarantees issued on its behalf, of which \$20.5 million are collateralized by cash deposits held by the respective issuing banks and \$6.1 million are collateralized by trade accounts receivable.

Under certain circumstances, Euronet grants guarantees in support of obligations of subsidiaries. As of June 30, 2011, the Company granted off balance sheet guarantees for cash in various ATM networks amounting to \$20.0 million over the terms of the cash supply agreements and performance guarantees amounting to approximately \$31.3 million over the terms of the agreements with the customers.

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

In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for damage to ATMs and theft of ATM network cash that, generally, is not recorded on the Company's Consolidated Balance Sheets. As of June 30, 2011, the balance of ATM network cash for which the Company was responsible was approximately \$300 million. The Company maintains insurance policies to mitigate this exposure;

In connection with the license of proprietary systems to customers, Euronet provides certain warranties and infringement indemnities to the licensee, which generally warrant that such systems do not infringe on intellectual

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property owned by third parties and that the systems will perform in accordance with their specifications;

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

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

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

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

The Company is also required to meet minimum capitalization and cash requirements of various regulatory authorities in the jurisdictions in which the Company has money transfer operations. To date, the Company is not aware of any significant claims made by the indemnified parties or third parties to guarantee agreements with the Company and, accordingly, no liabilities were recorded as of June 30, 2011 or December 31, 2010.

(10) INCOME TAXES

The Company's effective tax rates were 35.7% and 136.2% for the three-month periods ended June 30, 2011 and 2010, respectively, and were 30.2% and 81.1% for the six-month periods ended June 30, 2011 and 2010, respectively. The effective tax rates were significantly influenced by the foreign currency exchange gains and losses in the respective periods. Excluding the foreign currency exchange gains and losses from pre-tax income, as well as the related tax effects for these items, the Company's effective tax rates were 44.2% and 36.2% for the three months ended June 30, 2011 and 2010, respectively, and 43.0% and 39.0% for the six months ended June 30, 2011 and 2010, respectively.

The increases in the effective tax rates, as adjusted, for the second quarter and first half of 2011 compared to the applicable statutory rate of 35% are primarily related to the Company's U.S. tax position. For the three- and six-month periods ended June 30, 2011, we have recorded a valuation allowance against our U.S. income tax net operating losses as it is more likely than not that a tax benefit will not be realized. Accordingly, the income tax benefits associated with pre-tax book losses generated by the Company's U.S. entities have not been recognized in these periods.

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(11) LITIGATION AND CONTINGENCIES

Contingencies

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

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

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

Litigation

During 2010, CES was served with a class action lawsuit filed by a former employee for alleged wage and hour violations related to overtime and meal and rest period requirements under California law. California law regarding an employer’s obligations to provide lunch and rest periods is under review by the California Supreme Court. The proceeding is in the preliminary stages and we intend to vigorously defend the lawsuit. At the current stage of the proceedings, the Company considers that it is not possible to determine a range of loss, if any, that may arise from this lawsuit.

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

OVERVIEW

COMPANY OVERVIEW, GEOGRAPHIC LOCATIONS AND PRINCIPAL PRODUCTS AND SERVICES

Euronet Worldwide, Inc. ("Euronet," the "Company," "we" or "us") is a leading electronic payments provider. We offer payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Our primary product offerings include comprehensive automated teller machine ("ATM"), point-of-sale ("POS") and card outsourcing services; electronic distribution of prepaid mobile airtime and other electronic payment products; and global consumer money transfer services. As of June 30, 2011, we operate in the following three principal operating segments:

The EFT Processing Segment, which processes transactions for a network of 12,058 ATMs and approximately 53,000 POS terminals across Europe, the Middle East and Asia Pacific. We provide comprehensive electronic payment solutions consisting of ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing and electronic recharge services for prepaid mobile airtime. Through this segment, we also offer a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.

The epay Segment, which provides distribution and collection services for prepaid mobile airtime and other electronic payment products. Including terminals operated by unconsolidated subsidiaries, we operate a network of approximately 588,000 POS terminals providing electronic processing of prepaid mobile airtime top-up services and other electronic payment products in Europe, the Middle East, Asia Pacific, North America and South America.

The Money Transfer Segment, which provides global consumer-to-consumer money transfer services, primarily under the brand name Ria. We offer this service through a network of sending agents and Company-owned stores (primarily in North America and Europe), disbursing money transfers through a worldwide correspondent network that includes approximately 133,000 locations. 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.

We have five processing centers in Europe, two in Asia Pacific, two in North America and one in the Middle East. We have 27 principal offices in Europe, seven in North America, nine in Asia Pacific and one in South America. Our executive offices are located in Leawood, Kansas, USA. With approximately 79% of our revenues denominated in currencies other than the U.S. dollar, any significant changes in currency exchange rates will likely have a significant impact on our results of operations.

SOURCES OF REVENUES AND CASH FLOW

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

EFT Processing Segment — Revenues in the EFT Processing Segment, which represented approximately 18% of total consolidated revenues for the first half of 2011, are derived from fees charged for transactions made by cardholders on our proprietary network of ATMs, as well as fixed management fees and transaction fees we charge to customers for operating ATMs and processing debit and credit cards under outsourcing and cross-border acquiring agreements.

Through our proprietary network, we generally charge fees for four types of ATM transactions: i) cash withdrawals, ii) balance inquiries, iii) transactions not completed because the relevant card issuer did not give authorization, and iv) value-added services such as prepaid telecommunication recharges, dynamic currency conversion, bill payment and ATM advertising. Revenues in this segment are also derived from license fees, professional services and maintenance fees for proprietary application software and sales of related hardware.

epay Segment — Revenues in the epay Segment, which represented approximately 57% of total consolidated revenues for the first half of 2011, are primarily derived from commissions or processing fees received from telecommunications service providers for the sale and distribution of prepaid mobile airtime. We also generate revenues from commissions earned from the distribution of other electronic payment products. Due to certain provisions in our mobile phone operator agreements, the operators have the ability to reduce the overall commission

paid on 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,

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the effect is to reduce revenues and reduce our direct operating costs resulting in only a small impact on gross profit and operating income. In some markets, reductions in commissions can significantly impact our results as it may not be possible, either contractually or commercially in the concerned market, to pass a reduction in commissions to the retailers. In Australia, certain retailers negotiate directly with the mobile phone operators for their own commission rates, which also limits our ability to pass through reductions in commissions. Agreements with mobile operators are important to the success of our business. These agreements permit us to distribute prepaid mobile airtime to the mobile operators' customers. Other 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 25% of total consolidated revenues for the first half of 2011, are primarily derived from charging a transaction fee, as well as the margin earned from purchasing foreign currency at wholesale exchange rates and selling the foreign currency to consumers at retail exchange rates. We have a sending agent network in place comprised of agents and Company-owned stores primarily in North America and Europe and a worldwide network of correspondent agents, consisting primarily of financial institutions in the transfer destination countries. Sending and correspondent agents each earn fees for cash collection and distribution services. These fees are recognized as direct operating costs at the time of sale.

## OPPORTUNITIES AND CHALLENGES

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

- the impact of competition by banks and other ATM operators and service providers in our current target markets;
- the demand for our ATM outsourcing services in our current target markets;
- the ability to develop products or services to drive increases in transactions;
- the expansion of our various business lines in markets where we operate and in new markets;
- the entrance into additional card acceptance and ATM management agreements with banks;
- the ability to obtain required licenses in markets we intend to enter or expand services;
- the availability of financing for expansion;
- the ability to efficiently install ATMs contracted under newly awarded outsourcing agreements;
- the ability to renew existing contracts at profitable rates;
- the ability to maintain pricing at current levels or mitigate price reductions in certain markets;
- the impact of reductions in ATM interchange fees;
- the ability to expand and sign additional customers for the cross-border merchant processing and acquiring business; and
- the continued development and implementation of our software products and their ability to interact with other leading products.

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

- the ability to negotiate new agreements in additional markets with mobile phone operators, content providers, agent financial institutions and retailers;
- the ability to use existing expertise and relationships with mobile operators, content providers and retailers to our advantage;
- the continued use of third-party providers such as ourselves to supply electronic processing solutions for existing and additional content;
- the development of mobile phone networks in the markets in which we do business and the increase in the number of mobile phone users;
- the overall pace of growth in the prepaid mobile phone market, including consumer shifts between prepaid and postpaid services;

our market share of the retail distribution capacity;

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the development of new technologies that may compete with POS distribution of prepaid mobile airtime;  
 the level of commission that is paid to the various intermediaries in the electronic payment distribution chain;  
 our ability to fully recover monies collected by retailers;  
 • our ability to add new and differentiated products in addition to those offered by mobile phone operators;  
 the ability to take advantage of cross-selling opportunities with our Money Transfer Segment, including providing money transfer services through our distribution network; and  
 the availability of financing for further expansion.  
 Money Transfer Segment — The expansion and development of our Money Transfer Segment business will depend on various factors, including, but not necessarily limited to, the following:  
 the continued growth in worker migration and employment opportunities;  
 the mitigation of economic and political factors that have had an adverse impact on money transfer volumes, such as changes in the economic sectors in which immigrants work and the developments in immigration policies in the U.S.;  
 the continuation of the trend of increased use of electronic money transfer and bill payment services among immigrant workers and the unbanked population in our markets;  
 the ability to maintain our agent and correspondent networks;  
 the ability to offer our products and services or develop new products and services at competitive prices to drive increases in transactions;  
 the development of new technologies that may compete with our money transfer network;  
 the expansion of our services in markets where we operate and in new markets;  
 the ability to strengthen our brands;  
 our ability to fund working capital requirements;  
 our ability to recover from agents funds collected from customers and our ability to recover advances made to correspondents;  
 our ability to maintain compliance with the regulatory requirements of the jurisdictions in which we operate or plan to operate;  
 the ability to take advantage of cross-selling opportunities with our epay Segment, including providing prepaid services through Ria's stores and agents worldwide;  
 the ability to leverage our banking and merchant/retailer relationships to expand money transfer corridors to Europe, Asia and Africa, including high growth corridors to Central and Eastern European countries;  
 the availability of financing for further expansion;  
 our ability to continue to successfully integrate Ria with our other operations; and  
 our ability to successfully expand our agent network in Europe using our Payment Services Directive license.  
 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 share-based compensation expense. These services are not directly identifiable with our reportable operating segments.

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## SEGMENT SUMMARY RESULTS OF OPERATIONS

Revenues and operating income by segment for the three- and six-month periods ended June 30, 2011 and 2010 are summarized in the tables below:

|                                        | Revenues for the<br>Three Months Ended<br>June 30,                   |          | Year-over-Year<br>Change |          |   | Revenues for the Six<br>Months Ended June<br>30,                   |           | Year-over-Year<br>Change |                        |   |
|----------------------------------------|----------------------------------------------------------------------|----------|--------------------------|----------|---|--------------------------------------------------------------------|-----------|--------------------------|------------------------|---|
|                                        |                                                                      |          | Increase<br>(Decrease)   | Increase |   |                                                                    |           | Increase<br>(Decrease)   | Increase               |   |
| (dollar amounts in<br>thousands)       | 2011                                                                 | 2010     | Amount                   | Percent  |   | 2011                                                               | 2010      | Amount                   | Percent                |   |
| EFT Processing                         | \$50,378                                                             | \$46,488 | \$3,890                  | 8        | % | \$94,739                                                           | \$95,054  | \$(315 )                 | —                      | % |
| epay                                   | 156,479                                                              | 137,689  | 18,790                   | 14       | % | 311,592                                                            | 283,069   | 28,523                   | 10                     | % |
| Money Transfer                         | 73,005                                                               | 60,051   | 12,954                   | 22       | % | 136,182                                                            | 116,108   | 20,074                   | 17                     | % |
| Total                                  | 279,862                                                              | 244,228  | 35,634                   | 15       | % | 542,513                                                            | 494,231   | 48,282                   | 10                     | % |
| Eliminations                           | (60 )                                                                | —        | (60 )                    | n/m      |   | (118 )                                                             | —         | (118 )                   | n/m                    |   |
| Total                                  | 279,802                                                              | 244,228  | 35,574                   | 15       | % | 542,395                                                            | 494,231   | 48,164                   | 10                     | % |
|                                        |                                                                      |          |                          |          |   |                                                                    |           |                          |                        |   |
|                                        | Operating Income<br>(Loss) for the Three<br>Months Ended June<br>30, |          | Year-over-Year<br>Change |          |   | Operating Income<br>(Loss) for the Six<br>Months Ended June<br>30, |           | Year-over-Year<br>Change |                        |   |
|                                        |                                                                      |          | Increase<br>(Decrease)   | Increase |   |                                                                    |           | Increase<br>(Decrease)   | Increase<br>(Decrease) |   |
| (dollar amounts in<br>thousands)       | 2011                                                                 | 2010     | Amount                   | Percent  |   | 2011                                                               | 2010      | Amount                   | Percent                |   |
| EFT Processing                         | \$9,191                                                              | \$8,233  | \$958                    | 12       | % | \$15,324                                                           | \$17,952  | \$(2,628 )               | (15 )                  | % |
| epay                                   | 13,485                                                               | 9,530    | 3,955                    | 42       | % | 26,615                                                             | 21,600    | 5,015                    | 23                     | % |
| Money Transfer                         | 5,022                                                                | 4,240    | 782                      | 18       | % | 7,792                                                              | 5,732     | 2,060                    | 36                     | % |
| Total                                  | 27,698                                                               | 22,003   | 5,695                    | 26       | % | 49,731                                                             | 45,284    | 4,447                    | 10                     | % |
| Corporate services and<br>eliminations | (8,898 )                                                             | (5,461 ) | (3,437 )                 | 63       | % | (13,714 )                                                          | (10,513 ) | (3,201 )                 | 30                     | % |
| Total                                  | \$18,800                                                             | \$16,542 | \$2,258                  | 14       | % | \$36,017                                                           | \$34,771  | \$1,246                  | 4                      | % |

n/m — Not meaningful.

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## Impact of changes in foreign currency exchange rates

Compared to most of the currencies of the foreign countries in which we operate, the U.S. dollar was weaker during the second quarter and first half of 2011 than it was during the comparable 2010 periods. Because our revenues and local expenses are recorded in the functional currencies of our operating entities, amounts we earned for the second quarter and first half of 2011 reflected a positive impact due to the stronger foreign currencies. Considering the results by country and the associated functional currency, we estimate that our consolidated operating income for the second quarter and first half of 2011 was approximately 18% and 10% more, respectively, when compared to the same periods of 2010 as a result of changes in foreign currency exchange rates. If significant, in our discussion we will refer to the impact of fluctuation in foreign currency exchange rates in our comparison of operating segment results for the three- and six-month periods ended June 30, 2011 and 2010. To provide further perspective on the impact of foreign currency exchange rates, the following table shows the changes in values relative to the U.S. dollar from the second quarter and first half of 2010 to the same periods of 2011 of the currencies of the countries in which we have our most significant operations:

| Currency          | Average Translation Rate |                    |         | Increase | Average Translation Rate |                  |         | Increase |
|-------------------|--------------------------|--------------------|---------|----------|--------------------------|------------------|---------|----------|
|                   | Three Months Ended       | Three Months Ended |         |          | Six Months Ended         | Six Months Ended |         |          |
|                   | June 30, 2011            | June 30, 2010      | Percent |          | June 30, 2011            | June 30, 2010    | Percent |          |
| Australian dollar | \$1.0626                 | \$0.8834           | 20      | %        | \$1.0343                 | \$0.8932         | 16      | %        |
| British pound     | \$1.6313                 | \$1.4916           | 9       | %        | \$1.6168                 | \$1.5257         | 6       | %        |
| euro              | \$1.4391                 | \$1.2734           | 13      | %        | \$1.4037                 | \$1.3286         | 6       | %        |
| Hungarian forint  | \$0.0054                 | \$0.0047           | 15      | %        | \$0.0052                 | \$0.0049         | 6       | %        |
| Indian rupee      | \$0.0224                 | \$0.0220           | 2       | %        | \$0.0223                 | \$0.0219         | 2       | %        |
| Polish zloty      | \$0.3640                 | \$0.3182           | 14      | %        | \$0.3556                 | \$0.3327         | 7       | %        |

## COMPARISON OF OPERATING RESULTS FOR THE THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 2011 AND 2010

## EFT PROCESSING SEGMENT

The following table presents the results of operations for the three- and six-month periods ended June 30, 2011 and 2010 for our EFT Processing Segment:

|                                     | Three Months Ended |          | Year-over-Year |          | Six Months Ended |          | Year-over-Year      |                     |
|-------------------------------------|--------------------|----------|----------------|----------|------------------|----------|---------------------|---------------------|
|                                     | June 30,           |          | Change         |          | June 30,         |          | Change              |                     |
|                                     |                    |          | Increase       | Increase |                  |          | Increase (Decrease) | Increase (Decrease) |
| (dollar amounts in thousands)       | 2011               | 2010     | Amount         | Percent  | 2011             | 2010     | Amount              | Percent             |
| Total revenues                      | \$50,378           | \$46,488 | \$3,890        | 8 %      | \$94,739         | \$95,054 | \$(315 )            | — %                 |
| Operating expenses:                 |                    |          |                |          |                  |          |                     |                     |
| Direct operating costs              | 23,401             | 22,790   | 611            | 3 %      | 45,465           | 46,718   | (1,253 )            | (3 )%               |
| Salaries and benefits               | 8,026              | 6,863    | 1,163          | 17 %     | 14,921           | 13,104   | 1,817               | 14 %                |
| Selling, general and administrative | 4,502              | 4,116    | 386            | 9 %      | 8,847            | 7,870    | 977                 | 12 %                |
| Depreciation and amortization       | 5,258              | 4,486    | 772            | 17 %     | 10,182           | 9,410    | 772                 | 8 %                 |
| Total operating expenses            | 41,187             | 38,255   | 2,932          | 8 %      | 79,415           | 77,102   | 2,313               | 3 %                 |
| Operating income                    | \$9,191            | \$8,233  | \$958          | 12 %     | \$15,324         | \$17,952 | \$(2,628 )          | (15 )%              |
| Transactions processed (millions)   | 233                | 197      | 36             | 18 %     | 439              | 385      | 54                  | 14 %                |
| ATMs as of June 30                  | 12,058             | 10,408   | 1,650          | 16 %     | 12,058           | 10,408   | 1,650               | 16 %                |
| Average ATMs                        | 11,692             | 10,370   | 1,322          | 13 %     | 11,319           | 10,288   | 1,031               | 10 %                |



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### Revenues

Our revenues for the second quarter of 2011 increased when compared to the second quarter of 2010 primarily due to the impact of the stronger foreign currencies, growth in value-added services and an increase in the number of ATMs under management. Because our revenues are recorded in the functional currencies of our operating entities, amounts we earn in foreign currencies are positively impacted by the stronger foreign currencies. Partly offsetting the increase were decreases in transaction fees in Germany. We were able to increase transaction fees in Germany beginning in mid-2009 and were generally able to maintain them through 2010; however, we experienced reductions in these fees beginning in 2011 as a result of market and regulatory factors. Accordingly, we expect that the EFT Processing Segment's revenues and operating income will continue to reflect these reductions for the full year 2011. The decrease in revenues for the first half of 2011 when compared to the first half of 2010 also includes the impact of decreased interchange fee revenues in Poland beginning in the second quarter of 2010. Additionally, we recognized \$1.2 million in the first quarter of 2011 from the acceleration of previously deferred revenue related to a customer discontinuing a certain product in Greece. Further, we had significant sales of POS terminals in Slovakia during the first quarter of 2010 that did not recur in the first quarter of 2011.

Average monthly revenue per ATM was \$1,436 for the second quarter and \$1,395 for the first half of 2011, compared to \$1,494 for the second quarter and \$1,540 for the first half of 2010. The decrease in the second quarter of 2011 from the second quarter of 2010 is primarily due to the reductions in transaction fees in Germany that took effect in the first quarter of 2011, partly offset by the impact of the stronger foreign currencies and growth in value-added services. The decrease in the first half of 2011 compared to the same period in 2010 was also the result of the decrease in interchange fee revenues in Poland that took effect in the second quarter of 2010. Revenue per transaction was \$0.22 each for the second quarter and first half of 2011 compared to \$0.24 for the second quarter and \$0.25 for the first half of 2010. These decreases are primarily the result of the reductions in transaction fees in Germany and the growth of Cashnet (Euronet's shared ATM network in India) transactions, which generate lower revenues per transaction than those on owned or outsourced ATMs. These decreases were partly offset by the impact of the stronger foreign currencies and growth in value-added services. The decrease in the first half of 2011 compared to the first half of 2010 also reflects the decreased interchange fee revenues in Poland.

### Direct operating costs

Direct operating costs consist primarily of site rental fees, cash delivery costs, cash supply costs, maintenance, insurance, telecommunications and the cost of data center operations-related personnel, as well as the processing centers' facility-related costs and other processing center-related expenses. Direct operating costs increased in the second quarter of 2011 compared to the second quarter of 2010 primarily due to the impact of the stronger foreign currencies and the increase in the number of ATMs under management. The decrease in direct operating costs for the first half of 2011, compared to the first half of 2010, is mainly attributed to the cost of the POS terminal sales in Slovakia in the first quarter of 2010 that did not recur in the first quarter of 2011 along with operating cost improvements in Poland, partly offset by the increase in the number of ATMs under management and the impact of the stronger foreign currencies.

### Gross profit

Gross profit, which is calculated as revenues less direct operating costs, was \$27.0 million for the second quarter and \$49.3 million for the first half of 2011 compared to \$23.7 million for the second quarter and \$48.3 million for the first half of 2010. The increase for the second quarter of 2011 is primarily due to the impact of the stronger foreign currencies, growth in value-added services and the increase in ATMs under management, partly offset by reduced transaction fees in Germany. The increase in the first half of 2011 also reflects the reduced interchange fees in Poland and the deferred revenue recognized in Greece. Gross profit as a percentage of revenues ("gross margin") was 54% for the second quarter and 52% for the first half of 2011 compared to 51% for both the second quarter and first half of 2010.

### Salaries and benefits

The increase in salaries and benefits for the second quarter and first half of 2011 was primarily due to the impact of the stronger foreign currencies and increased bonus expense in the current year. As a percentage of revenues, these costs increased to 15.9% for the second quarter and 15.7% for the first half of 2011 compared to 14.8% for the second

quarter and 13.8% for the first half of 2010 as a result of increased costs and the impact on revenues from the reduced transaction fees in Poland and Germany.

Selling, general and administrative

The increase in selling, general and administrative expenses for the second quarter and first half of 2011 compared to the same periods of 2010 is primarily due to the impact of the stronger foreign currencies. The increase for the first half of 2011 also reflects increased bad debt expense as a result of unusually low bad debt expense in the first quarter of 2010 due to the collection of certain amounts that had been previously written off. As a percentage of revenues, selling, general and administrative expenses remained flat at 8.9% for the second quarter of 2011 and 2010. The first half of 2011 increased to

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9.3% compared to 8.3% for the first half of 2010 as a result of increased costs and the impact on revenues from the reduced transaction fees in Poland and Germany.

**Depreciation and amortization**

Depreciation and amortization expense increased for the second quarter and first half of 2011 compared to the same periods of 2010 primarily due to the impact of the stronger foreign currencies. As a percentage of revenues, depreciation and amortization expense increased to 10.4% for the second quarter and 10.7% for the first half of 2011 compared to 9.6% for the first quarter and 9.9% for the first half of 2010 as a result of the impact on revenues from the reduced transaction fees in Poland and Germany.

**Operating income**

Operating income increased for the second quarter of 2011 compared to the second quarter of 2010 primarily due to the impact of the stronger foreign currencies, growth in value-added services and the increase in ATMs under management, partly offset by the reduced transaction fees in Germany. The decrease in operating income for the first half of 2011 from the first half of 2010 also reflects the decreased interchange fee revenues in Poland. Operating income per transaction was \$0.04 for both the second quarter of 2011 and 2010 reflecting the impact of the stronger foreign currencies offsetting the impact of the reduced transaction fees in Germany and the increase in Cashnet transactions which have lower-than-average operating income per transaction. Operating income per transaction for the first half of 2011 was \$0.03 compared to \$0.05 for the same period in 2010, which also reflects the reduced interchange fee revenues in Poland and the deferred revenue recognized in Greece in the first quarter of 2011.

Operating income as a percentage of revenues (“operating margin”) for the second quarter of 2011 was 18.2% compared to 17.7% for the second quarter of 2010, which is primarily due to the growth in value-added services, partly offset by the reduced transaction fees in Germany. Operating margin for the first half of 2011 was 16.2% compared to 18.9% for the same period in 2010, which also reflects the reduced interchange fee revenues in Poland and the deferred revenue recognized in Greece.

**EPAY SEGMENT**

The following table presents the results of operations for the three- and six-month periods ended June 30, 2011 and 2010 for our epay Segment:

|                                     | Three Months Ended<br>June 30, |           | Year-over-Year<br>Change |                     |   | Six Months Ended<br>June 30, |           | Year-over-Year<br>Change |                     |   |
|-------------------------------------|--------------------------------|-----------|--------------------------|---------------------|---|------------------------------|-----------|--------------------------|---------------------|---|
|                                     | 2011                           | 2010      | Increase<br>Amount       | Increase<br>Percent |   | 2011                         | 2010      | Increase<br>Amount       | Increase<br>Percent |   |
| (dollar amounts in thousands)       |                                |           |                          |                     |   |                              |           |                          |                     |   |
| Total revenues                      | \$156,479                      | \$137,689 | \$18,790                 | 14                  | % | \$311,592                    | \$283,069 | \$28,523                 | 10                  | % |
| Operating expenses:                 |                                |           |                          |                     |   |                              |           |                          |                     |   |
| Direct operating costs              | 118,554                        | 109,754   | 8,800                    | 8                   | % | 238,465                      | 225,353   | 13,112                   | 6                   | % |
| Salaries and benefits               | 11,521                         | 7,154     | 4,367                    | 61                  | % | 21,940                       | 15,479    | 6,461                    | 42                  | % |
| Selling, general and administrative | 8,443                          | 7,429     | 1,014                    | 14                  | % | 15,574                       | 12,660    | 2,914                    | 23                  | % |
| Depreciation and amortization       | 4,476                          | 3,822     | 654                      | 17                  | % | 8,998                        | 7,977     | 1,021                    | 13                  | % |
| Total operating expenses            | 142,994                        | 128,159   | 14,835                   | 12                  | % | 284,977                      | 261,469   | 23,508                   | 9                   | % |
| Operating income                    | \$13,485                       | \$9,530   | \$3,955                  | 42                  | % | \$26,615                     | \$21,600  | \$5,015                  | 23                  | % |
| Transactions processed (millions)   | 264                            | 204       | 60                       | 29                  | % | 507                          | 404       | 103                      | 25                  | % |

**Revenues**

The increase in revenues for the second quarter and first half of 2011 compared to the same periods of 2010 was primarily due to the impact of our third quarter 2010 acquisition of Telecomnet, Inc., now known as epay Brazil, an increase in transactions processed in Germany – mainly from increased demand for non-mobile products – and the impact of the stronger foreign currencies. This increase was partly offset by declines in the number of transactions processed in the U.K. and Australia which were mostly driven by economic and competitive pressures and lower cost

call plans.

In certain markets, our revenue growth has slowed due to mobile phone operators driving competitive reductions in

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commissions, as well as overall economic conditions impacting customers' buying decisions. We expect most of our future revenue growth to be derived from: (i) additional electronic payment products sold over the base of POS terminals, (ii) developing markets or markets in which there is organic growth in the electronic top-up sector overall, and (iii) acquisitions, if available.

Revenues per transaction were \$0.59 for the second quarter and \$0.61 for the first half of 2011 compared to \$0.67 for the second quarter and \$0.70 for the first half of 2010. The decrease in revenues per transaction is due mainly to the changes in the mix of transactions, particularly due to growth in India, where revenues per transaction are considerably lower than average, and our ATX subsidiary. ATX provides only transaction processing services without significant direct costs and other operating costs related to installing and managing terminals; therefore, the revenues we recognize from these transactions are a fraction of that recognized on average transactions, but with strong contribution to gross profit. The decreases were partly offset by the impact of the stronger foreign currencies.

### Direct operating costs

Direct operating costs in the epay Segment include the commissions we pay to retail merchants for the distribution and sale of prepaid mobile airtime and other prepaid products, as well as expenses required to operate POS terminals. The increase in direct operating costs is generally attributable to the impact of epay Brazil, increases in transactions processed in other markets and the impact of the stronger foreign currencies. These increases are partly offset by a higher mix of lower cost transactions.

### Gross profit

Gross profit, which represents revenues less direct costs, was \$37.9 million for the second quarter and \$73.1 million for the first half of 2011 compared to \$27.9 million for the second quarter and \$57.7 million for the first half of 2010. The primary causes of the increase in gross profit are the impact of epay Brazil, the increased transaction volumes in Germany – mainly from increased demand for non-mobile products – and the impact of the stronger foreign currencies, partly offset by transaction volume declines in Australia. Gross margin increased to 24% for the second quarter and 23% for the first half of 2011 compared to 20% for both the second quarter and first half of 2010, mainly reflecting the impact of epay Brazil and the growth in Germany. Gross profit per transaction remained flat at \$0.14 for the second quarter and first half of 2011 and 2010, reflecting the impact of the stronger foreign currencies offsetting the impact of a higher mix of lower profit transactions.

### Salaries and benefits

The increase in salaries and benefits for the second quarter and first half of 2011 compared to the same periods of 2010 is primarily due to the impacts of epay Brazil and the stronger foreign currencies, along with additional headcount to support development of new products and growing markets. As a percentage of revenues, salaries and benefits increased to 7.4% for the second quarter and 7.0% for the first half of 2011 from 5.2% for the second quarter and 5.5% for the first half of 2010.

### Selling, general and administrative

The increase in selling, general and administrative expenses for the second quarter and first half of 2011 compared to the same periods of 2010 is mainly due to the impacts of epay Brazil and the stronger foreign currencies, along with additional overhead to support development of new products and growing markets. As a percentage of revenues, these expenses remained flat at 5.4% for the second quarter of 2011 and 2010 and increased to 5.0% for the first half of 2011 compared to 4.5% for the first half of 2010.

### Depreciation and amortization

Depreciation and amortization expense primarily represents amortization of acquired intangible assets and the depreciation of POS terminals we install in retail stores. Depreciation and amortization expense increased for the second quarter and first half of 2011 compared to the same periods of 2010 mainly due to the impacts of epay Brazil and the stronger foreign currencies, partly offset by decreased expense in mature markets where acquired intangible assets are becoming fully amortized and POS terminals are becoming fully depreciated at a faster rate than new terminals are being installed. As a percentage of revenues, these expenses increased slightly to 2.9% for the second quarter and first half of 2011 from 2.8% for the same periods of 2010.

### Operating income

The increases in operating income for the second quarter and first half of 2011 compared to the same periods of 2010 are primarily due to the impact of ePay Brazil, the growth in Germany – mainly from increased demand for non-mobile products – and the impact of the stronger foreign currencies, partly offset by decreased profitability in Australia. Operating margin was 8.6% for the second quarter and 8.5% for the first half of 2011 compared to 6.9% for the second quarter and 7.6% for the first half of 2010. The increases are mainly due to the growth in Germany. Operating income per transaction remained flat at \$0.05

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for the second quarter and first half of 2011 and 2010.

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## MONEY TRANSFER SEGMENT

The following tables present the results of operations for the three- and six-month periods ended June 30, 2011 and 2010 for the Money Transfer Segment:

|                                     | Three Months Ended<br>June 30, |          | Year-over-Year<br>Change<br>Increase<br>(Decrease) Increase |         |   | Six Months Ended<br>June 30, |           | Year-over-Year<br>Change<br>Increase<br>Increase |         |   |
|-------------------------------------|--------------------------------|----------|-------------------------------------------------------------|---------|---|------------------------------|-----------|--------------------------------------------------|---------|---|
| (dollar amounts in thousands)       | 2011                           | 2010     | Amount                                                      | Percent |   | 2011                         | 2010      | Amount                                           | Percent |   |
| Total revenues                      | \$73,005                       | \$60,051 | \$12,954                                                    | 22      | % | \$136,182                    | \$116,108 | \$20,074                                         | 17      | % |
| Operating expenses:                 |                                |          |                                                             |         |   |                              |           |                                                  |         |   |
| Direct operating costs              | 33,497                         | 28,292   | 5,205                                                       | 18      | % | 62,464                       | 54,626    | 7,838                                            | 14      | % |
| Salaries and benefits               | 17,360                         | 13,886   | 3,474                                                       | 25      | % | 33,365                       | 28,083    | 5,282                                            | 19      | % |
| Selling, general and administrative | 12,166                         | 8,666    | 3,500                                                       | 40      | % | 22,187                       | 17,610    | 4,577                                            | 26      | % |
| Depreciation and amortization       | 4,960                          | 4,967    | (7)                                                         | —       | % | 10,374                       | 10,057    | 317                                              | 3       | % |
| Total operating expenses            | 67,983                         | 55,811   | 12,172                                                      | 22      | % | 128,390                      | 110,376   | 18,014                                           | 16      | % |
| Operating income                    | \$5,022                        | \$4,240  | \$782                                                       | 18      | % | \$7,792                      | \$5,732   | \$2,060                                          | 36      | % |
| Transactions processed (millions)   | 6.0                            | 5.3      | 0.7                                                         | 13      | % | 11.3                         | 10.1      | 1.2                                              | 12      | % |

## Revenues

Revenues from the Money Transfer Segment include a transaction fee for each transaction, as well as a margin earned from purchasing currency at wholesale exchange rates and selling the currency to customers at retail exchange rates. The increase in revenues for the second quarter and first half of 2011 compared to revenues for the same periods of 2010 is primarily due to the increase in the number of transactions processed and the impact of the stronger foreign currencies. The growth in transactions processed was driven by a 22% and 20% increase in transfers from non-U.S. markets in the second quarter and first half of 2011, respectively, and growth in other products such as check cashing and bill payment. The increase in transfers from non-U.S. markets is due to the expansion of our agent and correspondent payout networks.

Revenues per transaction increased to \$12.17 for the second quarter and \$12.05 for the first half of 2011 from \$11.33 for the second quarter and \$11.50 for the first half of 2010. The growth rate of revenues exceeded the transaction growth rate for the second quarter and first half of 2011 compared to the same periods of 2010 largely as a result of the impact of the stronger foreign currencies and the continued shift in transaction mix to non-U.S. locations which generally have higher-than-average revenues per transaction. For the six months ended June 30, 2011, 58% of our money transfers were initiated in the U.S. and 42% in non-U.S. markets compared to 61% initiated in the U.S. and 39% in non-U.S. markets for the six months ended June 30, 2010. We expect that the U.S. will continue to represent our highest volume market; however, continued future growth is expected to be derived from the addition of new products and the expansion of our agent and correspondent payout networks in new and existing markets, primarily outside the U.S.

## Direct operating costs

Direct operating costs in the Money Transfer Segment primarily represent commissions paid to agents that originate money transfers on our behalf and correspondent agents that disburse funds to the customers' destination beneficiary, together with less significant costs, such as telecommunication costs and bank fees to collect money from sending agents. The increase in direct operating costs in the second quarter and first half of 2011 compared to the same periods of 2010 is primarily due to the growth in transactions processed and the impact of the stronger foreign currencies.

## Gross profit

Gross profit, which represents revenues less direct costs, was \$39.5 million for the second quarter and \$73.7 million for the first half of 2011 compared to \$31.8 million for the second quarter and \$61.5 million for the first half of 2010. The improvements are primarily due to the growth in money transfer transactions, the impact of the stronger foreign currencies, the shift in transaction mix to transfers from non-U.S. sources and the addition of new products. Gross margin was 54% for the second quarter and first half of 2011 compared to 53% for the same periods of 2010. This improvement primarily reflects the shift in

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transaction mix to transfers from non-U.S. sources.

#### Salaries and benefits

The increase in salaries and benefits for the second quarter and first half of 2011 compared to the same periods of 2010 is due to the increased expenditures we incurred to support expansion of our operations, primarily internationally, and the impact of the stronger foreign currencies. As a percentage of revenues, salaries and benefits increased slightly to 23.8% for the second quarter and 24.5% for the first half of 2011 compared to 23.1% for the second quarter and 24.2% for the first half of 2010.

#### Selling, general and administrative

Selling, general and administrative expenses increased for the second quarter and first half of 2011 compared to the same periods of 2010, primarily as the result of the increased expenditures we incurred to support expansion of our operations, primarily internationally, and the impact of the stronger foreign currencies. The increase in the second quarter of 2011 compared to the second quarter of 2010 also reflects increased expenditures to support expansion of our operations in the U.S. and a significant insurance recovery in the second quarter of 2010 related to a bad debt. As a percentage of revenues, selling, general and administrative expenses increased to 16.7% for the second quarter and 16.3% for the first half of 2011 from 14.4% for the second quarter and 15.2% for the first half of 2010.

#### Depreciation and amortization

Depreciation and amortization primarily represents amortization of acquired intangible assets and depreciation of money transfer terminals, computers and software, leasehold improvements and office equipment. For the first half of 2011, depreciation and amortization increased compared to the same period in 2010, primarily as a result of increased expenditures on computers and software to support the money transfer platform. For the second quarter of 2011, depreciation and amortization was essentially flat compared to the second quarter of 2010 as the impact of the increased capital expenditures was offset by certain acquired intangible assets becoming fully amortized at the end of the first quarter of 2011. As a percentage of revenues, depreciation and amortization decreased to 6.8% for the second quarter and 7.6% for the first half of 2011 from 8.3% for the second quarter and 8.7% for the first half of 2010, reflecting a shift in achieving a greater portion of expansion through agents which requires less capital expenditures than expansion from adding company-owned stores.

#### Operating income

Operating income increased by \$0.8 million for the second quarter and \$2.1 million for the first half of 2011 compared to the same periods of 2010. These increases reflect the growth in transactions processed, the shift in transactions to non-U.S. markets, the impact of the stronger foreign currencies and the addition of new products, partly offset by increased salaries and benefits and selling, general and administrative expenses for expansion. Operating margin was 6.9% for the second quarter and 5.7% for the first half of 2011 compared to 7.1% for the second quarter and 4.9% for the first half of 2010 while operating income per transaction increased to \$0.84 for the second quarter and \$0.69 for the first half of 2011 from \$0.80 for the second quarter and \$0.57 for the first half of 2010.

#### CORPORATE SERVICES

The following table presents the operating expenses for the three- and six-month periods ended June 30, 2011 and 2010 for Corporate Services:

|                                     | Three Months Ended<br>June 30, |         | Year-over-Year<br>Change         |                                   |   | Six Months Ended<br>June 30, |         | Year-over-Year<br>Change         |                                   |   |
|-------------------------------------|--------------------------------|---------|----------------------------------|-----------------------------------|---|------------------------------|---------|----------------------------------|-----------------------------------|---|
|                                     | 2011                           | 2010    | Increase<br>(Decrease)<br>Amount | Increase<br>(Decrease)<br>Percent |   | 2011                         | 2010    | Increase<br>(Decrease)<br>Amount | Increase<br>(Decrease)<br>Percent |   |
| (dollar amounts in thousands)       |                                |         |                                  |                                   |   |                              |         |                                  |                                   |   |
| Salaries and benefits               | \$6,851                        | \$3,545 | \$3,306                          | 93                                | % | \$9,867                      | \$6,954 | \$2,913                          | 42                                | % |
| Selling, general and administrative | 1,962                          | 1,639   | 323                              | 20                                | % | 3,678                        | 2,903   | 775                              | 27                                | % |
| Depreciation and amortization       | 85                             | 277     | (192)                            | (69)                              | % | 169                          |         |                                  |                                   |   |