

EURONET WORLDWIDE INC

Form 10-K

February 27, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

Commission File Number 001-31648

EURONET WORLDWIDE, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or
organization)

74-2806888

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

3500 COLLEGE BOULEVARD

LEAWOOD, KANSAS

(Address of principal executive offices)

66211

(Zip Code)

(913) 327-4200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$0.02 par value

Preferred Stock Purchase Rights

Name of Each Exchange on Which Registered

Nasdaq Stock Market, LLC

Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☐

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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.

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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 Act). Yes ☐ No ☒

As of June 30, 2012, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$845.1 million. The aggregate market value was determined based on the closing price of the Common Stock on June 29, 2012.

At February 25, 2013, the registrant had 49,604,922 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

OVERVIEW

General Overview

Euronet Worldwide, Inc. (“Euronet,” the “Company,” “we,” “our” 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”), card outsourcing, card issuing and merchant acquiring services, software solutions, electronic distribution of prepaid mobile airtime and other electronic payment products; and global consumer money transfer services.

Core Business Segments

We operate in the following three business segments as of December 31, 2012:

The EFT Processing Segment processes transactions for a network of 17,600 ATMs and approximately 67,000 POS terminals across Europe, the Middle East and Asia Pacific. We provide comprehensive electronic payment solutions consisting of ATM cash withdrawal services; ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, and card issuing and merchant acquiring services. In addition to our core business, we offer a variety of value added services, including dynamic currency conversion, advertising, Customer Relationship Management (“CRM”), mobile top-up, bill payment, fraud management and foreign remittance payout. Through this segment, we also offer a suite of integrated electronic financial transaction (“EFT”) software solutions for electronic payment and transaction delivery systems. In 2012, the EFT Processing Segment accounted for approximately 19% of Euronet's consolidated revenues.

The epay Segment provides electronic distribution and processing of prepaid mobile airtime and other electronic payment products and collection services for various payment products, cards and services. We operate a network that includes approximately 680,000 POS terminals that enable electronic processing of prepaid mobile airtime “top-up” services and other non-mobile content in Europe, the Middle East, Asia Pacific, North America and South America. We also provide vouchers and physical gift fulfillment services in Europe. Through this segment, we believe we are the world's leading international network for distribution of prepaid mobile airtime. In 2012, the epay Segment accounted for approximately 56% of Euronet's consolidated revenues.

The Money Transfer Segment provides global consumer-to-consumer money transfer services, mostly under the brand name Ria and AFEX. We offer this service through a network of sending agents and Company-owned stores (mostly in North America and Europe), disbursing money transfers through a worldwide correspondent network that includes approximately 177,000 locations. In addition to money transfers, we also offer customers bill payment services (mostly in the U.S.), mobile top-up, payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services for a wide variety of issued checks, and competitive foreign currency exchange services. We are one of the largest global money transfer companies in terms of revenues and transaction volumes. In 2012, the Money Transfer Segment accounted for approximately 25% of Euronet's consolidated revenues.

Euronet conducts business globally, serving customers in approximately 150 countries. We have nine transaction processing centers, including four in Europe, two in Asia Pacific, two in North America and one in the Middle East. We also maintain 49 business offices that are located in 36 countries. Our corporate offices are located in Leawood,

Kansas, USA.

Historical Perspective

Euronet was established in 1994 as Euronet Bank Access Kft., a Hungarian limited liability company. Operations began in 1995 when we established a processing center in Budapest, Hungary and installed our first ATMs in Hungary, followed by Poland and Germany in 1996. Euronet was reorganized on March 6, 1997, in connection with its initial public offering, and at that time, our operating entities became wholly owned subsidiaries of Euronet Services, Inc., a Delaware corporation. We changed our name from Euronet Services, Inc. to Euronet Worldwide, Inc. in August 2001.

Initially, most of Euronet's resources were devoted to establishing and expanding the ATM network and ATM management services business in Europe. In December 1998, we acquired Arkansas Systems, Inc. (now known as "Euronet USA"), a U.S.-based company that produces electronic payment and transaction delivery systems software for retail banks internationally, which resulted in significant ongoing savings in third-party licensing, services and maintenance costs. By the end of 1998, we were doing business in Hungary, Poland, Germany, the Czech Republic, and Croatia.

In 2005, we expanded the product offerings of the EFT Processing Segment through the acquisition of Instreamline S.A., a Greek company that provides credit card and POS outsourcing services in addition to debit card and transaction gateway switching services in Greece and the Balkan region. In 2007, we combined our EFT and Software segments as both businesses are strategically aligned due to the fact that our software segment primarily supports our EFT service offerings and processing centers. Expansion continued, and by 2010, Euronet's network of ATMs had expanded to include Greece, Slovakia, Romania, Bulgaria, Serbia, Ukraine, the Middle East, India and China.

In 2003, Euronet added a complementary business line through the acquisition of epay Limited ("epay"), which had offices in the U.K. and Australia. Through subsequent acquisitions between 2003 and 2010, the epay Segment continued to expand in Europe (Germany, Romania, Spain and the U.K.), the U.S., the Middle East, Asia and Brazil, and established new offices in New Zealand, Poland, India, and Italy. We believe the epay Segment is the world's leading international network for distribution and processing of prepaid mobile airtime (top-up) as well as other electronic payment products and services.

In 2007, we established the Money Transfer Segment after completing the acquisition of Los Angeles-based Ria, one of the largest global money transfer companies in terms of revenues and transaction volumes. Established in 1987, Ria originates and terminates transactions through a network of sending agents and Company-owned stores located around the world. In November 2009, Ria obtained a payment services license from the U.K. Financial Services Authority, which allowed Ria to operate under one license and one regulator for all European countries. The license also facilitated expansion into new markets through the sales of money transfers through agents in countries where the use of agents was not previously permitted. In addition to expanding the money transfer network, the segment expanded its product portfolio to offer complementary non-money transfer products such as bill payment and check cashing, and prepaid services in conjunction with the epay Segment.

2012 Developments

In January 2012, Euronet acquired the remaining 51% of the common stock of Euronet Middle East W.L.L., increasing our ownership percentage to 100%.

On October 11, 2012, Euronet increased the aggregate commitments under its senior secured revolving credit facility by \$125 million. In the process, additional financial institutions were added as lenders under the credit agreement. Borrowing capacity under the senior secured revolving credit facility increased from \$275 million to \$400 million, and Euronet remains entitled to increase its revolving borrowing capacity by an additional \$80 million. All other terms of the credit agreement remained unchanged.

On October 15, 2012, Euronet repurchased \$167.9 million in principal amount of 3.50% debentures due 2025 submitted to the Company for repurchase. Under the terms of the debentures, holders had the right to require the Company to repurchase some or all of their debentures on such date.

In November 2012, Euronet completed the acquisition of certain assets and retail contracts of a leading New Zealand full service gift card provider, ezi-pay Limited ("ezi-pay"). ezi-pay is New Zealand's largest full-service provider of gift card issuing, processing and distribution services for global and New Zealand-specific brands. ezi-pay distributes over 90 branded gift cards and mobile top-up through more than 1,200 large retail outlets in New Zealand. The acquisition elevates Euronet to the largest distributor of both prepaid mobile and non-mobile content in New Zealand.

BUSINESS SEGMENT OVERVIEW

For a discussion of operating results by segment, please see Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16, Business Segment Information, to the consolidated financial statements.

EFT PROCESSING SEGMENT

Overview

Our EFT Processing Segment provides comprehensive electronic payment solutions consisting of ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing; card issuing and merchant acquiring services. In addition to our core business, we offer a variety of value added services, including dynamic currency conversion, advertising, CRM, mobile top-up, bill payment, fraud management and foreign remittance payout. We provide these services either through our Euronet-owned ATMs or through contracts under which we operate ATMs on behalf of financial institutions. Through this segment, we also offer a suite of integrated EFT software solutions for electronic payment and transaction delivery systems.

The major source of revenues generated by our ATM network is recurring monthly management fees, transaction-based fees and margins earned on dynamic currency conversion transactions. We receive fixed monthly fees under many of our outsourced management contracts. The EFT Processing Segment also generates revenues from POS operations and merchant management, card network management (for credit, debit, prepaid and loyalty cards), prepaid mobile airtime recharge on ATMs and ATM advertising. We primarily service financial institutions in the developing markets of Central, Eastern and Southern Europe (Hungary, Poland, the Czech Republic, Croatia, Romania, Slovakia, Serbia, Greece, Bulgaria and Ukraine), the Middle East and Asia Pacific (India, China and Pakistan), as well as certain developed countries of Western Europe. As of December 31, 2012, we operated 17,600 ATMs compared to 14,224 at December 31, 2011. The increase was largely due to growth in India and expansion of our Independent ATM Deployed (IAD) networks in several Eastern European countries.

We monitor the number of transactions made by cardholders on our ATM network. These include cash withdrawals, balance inquiries, deposits, prepaid mobile airtime recharge purchases and certain denied (unauthorized) transactions. We do not bill certain transactions on our network to financial institutions, and we have excluded these transactions for reporting purposes. The number of transactions processed over our entire ATM network has increased over the last five years at a compound annual growth rate ("CAGR") of approximately 14% as indicated in the following table:

(in millions)	2008	2009	2010	2011	2012
EFT Processing transactions per year	672	703	794	943	1,156

Our processing centers for the EFT Processing Segment are located in Budapest, Hungary; Mumbai, India; Beijing, China; and Karachi, Pakistan. They operate 24 hours a day, seven days a week and consist of production IBM iSeries computers, which run the Euronet Integrated Transaction Management ("ITM") software package.

EFT Processing Products and Services

Outsourced Management Solutions

Euronet offers outsourced management services to financial institutions, retailers, mobile phone operators and other organizations using our processing centers' electronic financial transaction processing software. Our outsourced management services include management of existing ATM networks, development of new ATM networks, management of POS networks, management of automated deposit terminals, management of credit and debit card

databases and other financial processing services. These services include 24-hour monitoring of each ATM's status and cash condition, managing the cash levels in each ATM, coordinating the cash delivery and providing automatic dispatches for necessary service calls. We also provide real-time transaction authorization, advanced monitoring, network gateway access, network switching, 24-hour customer service, maintenance, cash settlement and reconciliation, forecasting and reporting. Since our infrastructure can support a significant increase in transactions, any new outsourced management services agreements should provide additional revenue with lower incremental cost.

Our outsourced management services agreements generally provide for fixed monthly management fees and, in most cases, fees payable for each transaction. The transaction fees under these agreements are generally lower than those under card acceptance agreements.

Euronet-Branded ATM Transaction Processing

Our Euronet-branded ATM networks, also known as Independent ATM Deployed (IAD) networks, are primarily managed by a processing center that uses our internally developed ITM core software solution. The ATMs in our IAD networks are able to process transactions for holders of credit and debit cards issued by or bearing the logos of financial institutions and international card organizations such as American Express®, Visa®, MasterCard®, Diners Club International®, Discover® and China Union Pay, as well as international ATM networks such as PULSE®. This ability is accomplished through our agreements and relationships with these institutions, international credit and debit card issuers and international card associations.

When a bank cardholder conducts a transaction on a Euronet-owned ATM, we receive a fee from the cardholder's bank for that transaction. The bank pays us this fee either directly or indirectly through a central switching and settlement network. When paid indirectly, this fee is referred to as the “interchange fee.” All of the banks in a shared ATM and POS switching system establish the amount of the interchange fee by agreement. We receive transaction-processing fees for successful transactions and, in certain circumstances, for transactions that are not completed because they fail to receive authorization. The fees paid to us by the card issuers are independent of any fees charged by the card issuers to cardholders in connection with the ATM transactions.

We generally receive fees or earn margin from our customers for five types of ATM transactions:

- Cash withdrawals,
- Balance inquiries,
- Transactions not completed because the relevant card issuer does not give authorization,
- Dynamic currency conversion, and
- Prepaid telecommunication recharges.

Card Acceptance or Sponsorship Agreements

Our agreements with financial institutions and international card organizations generally provide that all credit and debit cards issued by the customer financial institution or organization may be used at all ATMs that we operate in a given market. In most markets, we have agreements with a financial institution under which we are designated as a service provider (which we refer to as “sponsorship agreements”) for the acceptance of cards bearing international logos, such as Visa and MasterCard. These card acceptance or sponsorship agreements allow us to receive transaction authorization directly from the card issuing institution or international card organization. Our agreements generally provide for a term of three to seven years and are automatically renewed unless either party provides notice of non-renewal prior to the termination date. In some cases, the agreements are terminable by either party upon six months' notice. We are generally able to connect a financial institution to our network within 30 to 90 days of signing a card acceptance agreement. Generally, the financial institution provides the cash needed to complete transactions on the ATM. Euronet is generally liable for the cash in the ATM networks.

Under our card acceptance agreements, the ATM transaction fees we charge vary depending on the type of transaction and the number of transactions attributable to a particular card issuer. Our agreements generally provide for payment in local currency. Transaction fees are sometimes denominated in euros or U.S. dollars. Transaction fees are billed to financial institutions and card organizations with payment terms typically no longer than one month.

Dynamic Currency Conversion

We offer dynamic currency conversion ("DCC") over our IAD networks, ATM networks that we operate on an outsourced basis for banks, and over bank's ATM networks or Point of Sale ("POS") device as a stand-alone service. DCC is a feature of the underlying ATM or POS transaction that is offered to customers completing transactions using a foreign debit or credit card in another country. The customer is offered a choice between two alternatives for the foreign exchange conversion of the funds delivered at ATM or transactions completed through the POS terminal by the transaction acquirer, which result in a pre-defined amount of the customer's local currency being charged to their card, or they may have the transaction converted in the ordinary way, in which the amount of foreign currency is communicated to the card issuing bank and the card issuing bank make the conversion. In this latter case, the customer generally is not informed of the exchange rate used by the card issuing bank until settlement of the transaction.

When a customer chooses DCC at an ATM or POS transaction and Euronet acts as the acquirer, we receive all or a portion of the foreign exchange margin on the conversion of the transaction. On our IAD ATMs, Euronet or processor receives the entire exchange margin. On ATMs or POSs that are operated for banks, or where we offer DCC as a stand-alone service to banks or retailers, we share the foreign exchange margin. The foreign exchange margin on a DCC transaction can substantially increase the amount Euronet earns from the underlying ATM or POS transaction or increase the profitability of those ATMs on which DCC is offered.

Other Products and Services

Our network of owned or operated ATMs allows for the sale of financial and other products or services at a low incremental cost. We have developed value added services in addition to basic cash withdrawal and balance inquiry transactions. These value added services include dynamic currency conversion, mobile top-up, fraud management, bill payment, CRM, foreign remittance payout, and advertising. We are committed to the ongoing development of innovative new products and services to offer our EFT processing customers.

Euronet offers multinational merchants a Single European Payments Area (“SEPA”) compliant cross-border transaction processing solution. SEPA is an area in which all electronic payments can be made and received in euros, whether between or within national boundaries, under the same basic conditions, rights and obligations, regardless of their location. This single, centralized acquiring platform enables merchants to benefit from cost savings and faster, more efficient payments transfer. Although many European countries are not members of the Eurozone, the platform can serve the merchants in these countries as well, through its multi-currency functionality.

Software Solutions

We also offer a suite of integrated software solutions for electronic payments and transaction delivery systems. We generate revenues for our software products from licensing, professional services and maintenance fees for software and sales of related hardware, primarily to financial institutions around the world. We have been able to enter into agreements under which we contribute the right to use our ITM software in lieu of cash as our initial capital contributions to new transaction processing joint ventures. Such contributions permit us to enter new markets without significant cash outlays.

Additionally, our software products are an integral part of the EFT Processing Segment product lines, and our investment in research, development, delivery and customer support reflects our ongoing commitment to an expanded customer base both internally and externally. Our ITM software is used by processing centers in our EFT Processing Segment, resulting in cost savings and added value compared to third-party license and maintenance options.

EFT Processing Segment Strategy

The EFT Processing Segment maintains a strategy to expand the network of ATMs and POS terminals into developed and developing markets that have the greatest potential for growth. In addition, we follow a supporting strategy to increase the penetration of value-added (or complementary) services across our existing customer base, including dynamic currency conversion, advertising, fraud management, bill payment, prepaid mobile top-up, CRM and foreign remittance payout.

Growth opportunities are driven through financial institutions that are receptive to outsourcing the operation of their ATM, POS and card networks. The operation of these devices requires expensive hardware and software and specialized personnel. These resources are available to us, and we offer them to financial institutions under outsourcing contracts. The expansion and enhancement of our outsourced management solutions in new and existing markets will remain an important business opportunity for Euronet. Increasing the number of non-owned ATMs that we operate under management services agreements and continued development of our credit and debit card

outsourcing business should provide continued growth while minimizing our capital investment.

We continually strive to make our own ATM networks more efficient by eliminating underperforming ATMs and installing ATMs in more desirable locations. We will make selective additions to our own ATM network if we see market demand and profit opportunities. In recent years, the need for “all-in” services has increased. Banks, particularly smaller banks, are increasingly looking for integrated ATM, POS and card issuing processing and management services. Euronet is well positioned for this opportunity as it can offer a full end-to-end solution to the potential partners.

The EFT Processing Segment's line of services is strengthened through complementary services offered by our epay Segment, where we provide prepaid mobile airtime top-up services through POS terminals. We will continue to expand our technology and business methods into other markets where we operate and further leverage our relationships with mobile phone operators and financial institutions to facilitate that expansion.

Seasonality

Our business is significantly impacted by seasonality during the fourth quarter and first quarter of each year due to higher transaction levels during the holiday season and lower levels after the holiday season in the second quarter of the year. We have estimated that, absent significant fluctuations in foreign currency exchange rates or unusual circumstances, such as the impact of new acquisitions or unusually high levels of growth due to market factors, the overall revenue realized in the EFT Processing Segment is likely to be approximately 5% to 10% lower during the first quarter of each year than in the fourth quarter of the year. Additionally, mostly in Europe, we usually experience our heaviest demand for dynamic currency conversion, during the third quarter of the fiscal year, coinciding with the tourism season. As a result, revenues earned in the third quarter of the year will usually be greater than other quarters of the fiscal year.

Significant Customers and Government Contracts

No individual customer of the EFT Processing Segment makes up greater than 10% of consolidated total revenues. In India, we have contracts with government-owned banks to provide certain ATM services, including mobile airtime recharge services. Additionally, certain government-owned banks are members of our shared ATM network in India.

Competition

Our principal EFT Processing competitors include ATM networks owned by financial institutions and national switches consisting of consortiums of local banks that provide outsourcing and transaction services to financial institutions and independent ATM deployers in a particular country. Additionally, large, well-financed companies that operate ATMs offer ATM network and outsourcing services, and those that provide card outsourcing, POS processing and merchant acquiring services also compete with us in various markets. Small local operators have also recently begun offering their services, particularly in the independent ATM deployment market. None of these competitors has a dominant market share in any of our markets. Competitive factors in our EFT Processing Segment include breadth of service offering, network availability and response time, price to both the financial institution and to its customers, ATM location and access to other networks.

EPAY SEGMENT

Overview

We currently offer prepaid mobile airtime top-up services and other prepaid and payment products on a network of approximately 680,000 POS terminals across approximately 339,000 retailer locations in Europe, the Middle East, Asia Pacific, North America and South America. We believe we are the world's leading international network for distribution of prepaid mobile airtime (top-up). Our processing centers for the epay Segment are located in Basildon, U.K.; Martinsried, Germany; Milan, Italy; and Kansas City, Missouri, USA.

Since 2003, we have continually expanded our prepaid business in new and existing markets by drawing upon our depth of experience to build and expand relationships with mobile phone operators, prepaid content providers and retailers. In addition to prepaid mobile airtime, we offer a wide range of products across our retail networks, including prepaid debit cards, gift cards, prepaid vouchers, transport payments, lottery payments, prepaid digital content such as music, games and software, prepaid long distance and bill payment.

Sources of Revenues

The epay Segment generates commissions or processing fees received from telecommunications service providers for the sale and distribution of prepaid mobile airtime, which is a significant source of revenues for this segment. We also generate revenues as commissions earned from the distribution of electronic payment products referenced in the preceding paragraph.

Customers using mobile phones generally pay for their usage in two ways:

- Through “postpaid” accounts, where usage is billed at the end of each billing period; and
- Through “prepaid” accounts, where customers pay in advance by crediting their accounts prior to usage.

Although mobile phone operators in the U.S. and certain European countries have provided service principally through postpaid accounts, the norm in many other countries in Europe and the rest of the world is to offer wireless service on a prepaid basis. Prior to 2004, scratch cards were the predominant method of crediting mobile phone accounts in most developed markets.

Prepaid mobile phone credits are generally distributed using personal identification numbers or “PINs.” We distribute PINs in two ways. First, we purchase PINs from the mobile operator which are electronically sent to our processing platform. We establish an electronic connection with the POS terminals in retailer locations and our processing platform provides the terminal with a PIN when the mobile top-up is purchased. We maintain systems that monitor transaction levels at each terminal. As sales of prepaid mobile airtime to customers are completed, the inventory on the platform is reduced by the PIN purchased. The customer pays the retailer and the retailer becomes obligated to make settlement to us of the principal amount of the mobile airtime sold. We maintain systems that know the amount of mobile top-up sold by the retailer which allows us in turn to bill that retailer for the mobile top-up sold.

Second, we establish an electronic connection to the mobile operator and the retailer. When the sale to a customer is initiated, the terminal requests the PIN from the mobile operator via our transaction processing platform. These transactions obtain the PIN directly from the mobile operator and, therefore, Euronet does not carry PIN inventory. The customer payment and settlement with the retailer are the same as described above.

We expand our distribution networks through the signing of new contracts with retailers, and in some markets, through the acquisition of existing networks. We are continuing to focus on our growing network of distributors, generally referred to as Independent Sales Organizations that contract with retailers in their network to distribute prepaid mobile airtime or other content from their POS terminals. We continue to increase our focus on direct relationships with chains of supermarkets, convenience stores, petrol stations, and other larger scale retailers, where we can negotiate agreements with the merchant on a multi-year basis.

epay Products and Services

Prepaid Mobile Airtime Transaction Processing

We process prepaid mobile airtime top-up transactions on our POS network across Europe, the Middle East, Asia Pacific, North America and South America for two types of clients: distributors and retailers. Both types of client transactions start with a consumer in a retail store. The retailer uses a specially programmed POS terminal in the store, the retailer's electronic cash register (ECR) system, or web-based POS that is connected to our network to buy prepaid mobile airtime. The customer will select a predefined amount of mobile airtime from the carrier of choice, and the retailer enters the selection into the POS terminal. The consumer will pay that amount to the retailer (in cash or other payment methods accepted by the retailer). The POS device then transmits the selected transaction to our processing center. Using the electronic connection we maintain with the mobile phone operator or drawing from our inventory of PINs, the purchased amount of mobile airtime will be either credited to the consumer's account or delivered via a PIN printed by the terminal and given to the consumer. In the case of PINs printed by the terminal, the consumer must then call the mobile phone operator's toll-free number to activate the purchased airtime to the consumer's mobile account.

One difference in our relationships with various retailers and distributors is the way in which we charge for our services. For distributors and certain very large retailers, we charge a processing fee. However, the majority of our

transactions occur with smaller retailers. With these clients, we receive a commission on each transaction that is withheld from the payments made to the mobile phone operator, and we share that commission with the retailers.

Retailer and Distributor Contracts

We provide our prepaid services through POS terminals or web-based POS installed in retail outlets or, in the case of major retailers, through direct connections between their ECR systems and our processing centers. In markets where we operate proprietary technology (the U.K., Germany, Australia, Poland, Ireland, New Zealand, Spain, Greece, India, Italy, Brazil and the U.S.), we generally own and maintain the POS terminals. In certain countries in Europe, the terminals are sold to the retailers or to distributors who service the retailer. Our agreements with major retailers for the POS services typically have one to three-year terms. These agreements include terms regarding the connection of our networks to the respective retailer's registers or payment terminals or the maintenance of POS terminals, and obligations concerning settlement and liability for transactions processed. Generally, our agreements with individual or small retailers have shorter terms and provide that either party can terminate the agreement upon three to six months' notice.

In Germany, distributors are key intermediaries in the sale of mobile top-up. As a result, our business in Germany is substantially concentrated in, and dependent upon, relationships with our major distributors. The termination of any of our agreements with major distributors could materially and adversely affect our prepaid business in Germany. However, we have been establishing agreements with independent German retailers in order to diversify our exposure to such distributors.

Other Products and Services

Our POS network can be used for the distribution of other products and services. Although prepaid mobile airtime is the primary product distributed through our epay Segment, additional products include long distance calling card plans, prepaid Internet plans, debit cards, gift cards, prepaid vouchers, transport payments, lottery payments, bill payment and digital content such as music, games and software. Through our cadooz subsidiary, we also distribute vouchers and physical gifts. In certain locations, the terminals used for prepaid services can also be used for electronic funds transfer to process credit and debit card payments for retail merchandise. For 2012, gross profit from products other than prepaid mobile airtime comprised approximately 29% of the epay Segment's gross profit.

The number of transactions processed on our entire POS network has increased over the last five years at a CAGR of approximately 12% as indicated in the following table:

(in millions)	2008	2009	2010	2011	2012
epay processing transactions per year	713	777	891	1,064	1,113

epay Segment Strategy

The global strategy for the epay Segment is to grow market share by defending mature markets, focusing expansion activity in growth markets and adding positive operating income in all other developing markets.

In addition to maintaining and growing market share in prepaid mobile airtime top-up, our growth strategy is achieved through the introduction of new products and content. New product initiatives focus on products outside of prepaid mobile airtime top-up and processing, including gift card malls, prepaid debit cards, transport and digital content, including music, software and games. Strategic execution behind new products includes the development of relationships with global consumer product brands. This strategy leverages the global scale of the epay business allowing global brands to be sold in many or all of the countries in which we have a presence. Examples of global brands include Apple and Microsoft.

Telecommunications companies and retail companies have a substantial opportunity to increase revenues by diversifying the products and services currently offered to their merchant base. epay is deploying additional content

through its POS network to retailers and distributors all over the world. The reach, capabilities and quality of the epay network are appealing as a global distribution channel. We are one of the largest worldwide multi-country operators, and have a distinct competitive advantage from the existing relationships that we maintain with prepaid content providers and retailers.

Seasonality

The epay business is significantly impacted by seasonality during the fourth quarter and first quarter of each year due to the higher transaction levels during the holiday season and lower levels following the holiday season. We expect that, absent significant fluctuations in foreign currency exchange rates or unusual circumstances, such as the impact of new acquisitions or unusually high levels of growth due to market factors, the overall revenue realized is likely to be approximately 5% lower

during the first quarter than in the fourth quarter of the year. We have historically experienced minimal differences between the second and third quarters of each year.

Significant Customers and Government Contracts

No individual customer of our epay Segment makes up greater than 10% of consolidated total revenues. epay has a contract for the technology and distribution infrastructure for six state-owned lotteries in Germany. In addition, epay has contracts with the state of Florida's (USA) Turnpike partners, the Transport for London in the U.K. and Queensland Motorways in Australia. In New Zealand, we have a contract with Glo Bug prepaid power to allow customers to purchase prepaid power through various retail locations. Through Glo Bug, we have a contract with Mercury Energy, the power provider, which is a subsidiary of the government-owned enterprise, Mighty River Power. In Germany, cadooz has a contract with Deutsche Bahn, which is majority owned by the German State. We also have a contract for the distribution of mobile airtime with a Saudi company, which is majority owned by the Saudi government. There are no other government contracts in the epay Segment.

Competition

We face competition in the prepaid business in all of our markets. We compete with a few multinational companies that operate in several of our markets. In other markets, our competition is from smaller, local companies. The mobile operators in all of our markets have retail distribution networks, and in some markets, on-line distribution of their own through which they offer top-up services for their own products.

We believe our size and market share are competitive advantages in many markets. In addition, our platforms are a competitive advantage. We have extremely flexible technical platforms that enable us to tailor POS solutions to individual merchant and mobile operator requirements where appropriate. Our platforms are also able to provide value added services other than processing which makes us a more valuable partner to the mobile operators and merchants. We have begun to introduce new digital products into the marketplace. Many of these products are not offered by our competitors and in many countries, these are new products. We are capitalizing on being the first to market and only distributor of these products.

The principal competitive factors in the epay Segment include price (that is, the level of commission paid to retailers for each transaction), breadth of products and up-time offered on the system. Major retailers with high volumes are in a position to demand a larger share of the commission, which increases the amount of competition among service providers. We are seeing signs that some mobile operators are expanding their distribution networks to provide top-up services on-line or via mobile devices, which provides other alternatives for consumers to use; and in doing so, they become competitors.

MONEY TRANSFER SEGMENT

Overview

We provide consumer-to-consumer money transfer services through a global network of more than 177,000 locations. Transfers are originated through sending agents in approximately 21 countries, with money transfer delivery completed in 133 countries. The initiation of money transfers occurs through retail agents or Company-owned stores, while the delivery of money transfers can occur with bank correspondents, retailer agents or from certain ATMs. Transferred funds are delivered in foreign currency.

We monitor the number of transactions made through our money transfer networks. The number of transactions processed on our entire network has increased over the last five years at a CAGR of approximately 15% as indicated in the following table:

(in millions)	2008	2009	2010	2011	2012
Money transfer transactions per year	17.8	19.1	21.1	24.3	30.7

Our sending agent network includes a variety of agents, including large/medium size regional retailers, convenience stores, bodegas, multi-service shops and phone centers, which are predominantly found in areas with a large immigrant population. Each money transfer transaction is processed using the Company's proprietary software system and checked for security, completeness and compliance with federal regulations at every step of the process. Senders can track the progress of their transfers through Ria's customer service representatives, and funds are delivered quickly to their beneficiaries via our extensive payout network, which includes large banks and non-bank financial institutions, post offices and large retailers. Our processing center for the Money Transfer Segment is located in Buena Park, California, USA, and we operate call centers in Buena Park,

California; Antiguo Cuscatlán, El Salvador; and Madrid, Spain and provide multi-lingual customer service for both our agents and consumers.

Money Transfer Products and Services

Money Transfer products and services are sold primarily through three channels at agent locations and Company-owned stores: via computer (“Ria Online”), by phone (“TeleRia”), and card-based over a POS terminal (“Rialink”).

In an on-line transaction, customers provide the required information to the agent who enters the data into our on-line platform via a computer using a unique username and password. The real-time on-line connection we maintain with the agent enables the agent to generate a receipt and complete the transaction.