

EURONET WORLDWIDE INC

Form 10-Q

August 06, 2010

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

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

For the quarterly period ended June 30, 2010

OR

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

Commission File Number: 001-31648

EURONET WORLDWIDE, INC.

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

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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

66211
(Zip Code)

(913) 327-4200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

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

Equity:

Euronet Worldwide, Inc. stockholders' equity:

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

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

Additional paid-in-capital

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

Accumulated deficit

Restricted reserve

Accumulated other comprehensive income (loss)

Total Euronet Worldwide, Inc. stockholders' equity

Noncontrolling interests

Total equity

Total liabilities and equity

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

See accompanying notes to the unaudited consolidated financial statements.

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

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

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

See accompanying notes to the unaudited consolidated financial statements.

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

(1) GENERAL

Organization

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

Basis of presentation

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

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Multiple-deliverable revenue arrangements

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

Money transfer settlement obligations

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

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

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

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

(4) DISCONTINUED OPERATIONS

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

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

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

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

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

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

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

(6) DEBT OBLIGATIONS

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