EURONET WORLDWIDE INC
Form 10-Q
August 10, 2009

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

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

For the quarterly period ended June 30, 2009

OR

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

Commission File Number: 001-31648

EURONET WORLDWIDE, INC.

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

Delaware	**74-2806888**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4601 COLLEGE BOULEVARD, SUITE 300 LEAWOOD, KANSAS	**66211**
(Address of principal executive offices)	**(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 þ No o

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 o No o

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of the issuer s common stock, $0.02 par value, outstanding as of July 31, 2009 was 50,650,787 shares.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of June 30, 2009	As of December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 160,516	$ 181,341
Restricted cash	112,577	131,025
Inventory PINs and other	53,933	61,279
Trade accounts receivable, net of allowances for doubtful accounts of $10,046 at June 30, 2009 and $9,445 at December 31, 2008	243,075	261,084
Deferred income taxes, net	8,196	8,539
Prepaid expenses and other current assets	39,205	35,352
Current assets of discontinued operations	3,046	3,729
Total current assets	620,548	682,349
Property and equipment, net of accumulated depreciation of $139,220 at June 30, 2009 and $125,258 at December 31, 2008	94,730	89,532
Goodwill	492,448	488,305
Acquired intangible assets, net of accumulated amortization of $75,906 at June 30, 2009 and $62,920 at December 31, 2008	120,871	125,313
Deferred income taxes, net	38,273	40,465
Other assets, net of accumulated amortization of $17,835 at June 30, 2009 and $15,785 at December 31, 2008	36,806	20,628
Non-current assets of discontinued operations	5,019	4,053
Total assets	$ 1,408,695	$ 1,450,645
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 218,323	$ 245,671
Accrued expenses and other current liabilities	221,371	223,814
Current portion of capital lease obligations	3,866	4,614
Short-term debt obligations and current maturities of long-term debt obligations	45,063	68,646
Income taxes payable	20,791	16,590
Deferred income taxes	6,019	5,592
Deferred revenue	12,789	14,914
Current liabilities of discontinued operations	2,988	3,359

Total current liabilities	531,210	583,200
Debt obligations, net of current portion	283,823	294,355
Capital lease obligations, net of current portion	4,371	6,356
Deferred income taxes	57,608	62,905
Other long-term liabilities	8,392	7,919
Total liabilities	885,404	954,735
Equity:		
Euronet Worldwide, Inc. stockholders equity		
Preferred Stock, $0.02 par value. Authorized 10,000,000 shares; none issued		
Common Stock, $0.02 par value. 90,000,000 shares authorized; 50,868,508 issued at June 30, 2009 and 50,605,909 issued at December 31, 2008	1,017	1,012
Additional paid-in-capital	735,245	729,907
Treasury stock, at cost, 242,649 shares at June 30, 2009 and 225,072 shares at December 31, 2008	(1,063)	(784)
Accumulated deficit	(230,210)	(233,456)
Restricted reserve	1,028	996
Accumulated other comprehensive income (loss)	10,529	(9,350)
Total Euronet Worldwide, Inc. stockholders equity	516,546	488,325
Noncontrolling interests	6,745	7,585
Total equity	523,291	495,910
Total liabilities and equity	$ 1,408,695	$ 1,450,645

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 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
EFT Processing Segment	$ 45,592	$ 52,361	$ 91,798	$ 100,597
Prepaid Processing Segment	145,253	152,633	279,776	296,858
Money Transfer Segment	57,769	59,456	110,737	111,788
Total revenues	248,614	264,450	482,311	509,243
Operating expenses:				
Direct operating costs	165,053	179,425	318,601	345,363
Salaries and benefits	31,085	33,064	59,681	63,758
Selling, general and administrative	20,911	20,050	39,979	40,999
Goodwill and acquired intagible assets impairment			9,884	
Depreciation and amortization	13,541	14,613	26,444	28,594
Total operating expenses	230,590	247,152	454,589	478,714
Operating income	18,024	17,298	27,722	30,529
Other income (expense):				
Interest income	885	2,092	1,854	5,900
Interest expense	(6,653)	(9,138)	(13,720)	(19,026)
Income from unconsolidated affiliates	516	238	1,034	481
Impairment loss on investment securities		(1,258)		(18,760)
Loss on early retirement of debt	(150)	(91)	(253)	(246)
Foreign currency exchange gain (loss), net	9,650	(378)	(941)	12,699
Other income (expense), net	4,248	(8,535)	(12,026)	(18,952)
Income from continuing operations before income taxes	22,272	8,763	15,696	11,577
Income tax expense	(6,397)	(1,662)	(11,714)	(11,749)
Income (loss) from continuing operations	15,875	7,101	3,982	(172)

Discontinued operations, net		146		(496)		85		(1,309)
Net income (loss)		16,021		6,605		4,067		(1,481)
Less: Net income attributable to noncontrolling interests		(477)		(673)		(821)		(1,236)
Net income (loss) attributable to Euronet Worldwide, Inc.	$	15,544	$	5,932	$	3,246	$	(2,717)
Earnings (loss) per share attributable to Euronet Worldwide, Inc. stockholders basic:								
Continuing operations	$	0.31	$	0.13	$	0.06	$	(0.03)
Discontinued operations				(0.01)				(0.03)
Total	$	0.31	$	0.12	$	0.06	$	(0.06)
Basic weighted average shares outstanding		50,425,261		48,916,432		50,358,983		48,862,196
Earnings (loss) per share attributable to Euronet Worldwide, Inc. stockholders diluted:								
Continuing operations	$	0.30	$	0.13	$	0.06	$	(0.03)
Discontinued operations				(0.01)				(0.03)
Total	$	0.30	$	0.12	$	0.06	$	(0.06)
Diluted weighted average shares outstanding		51,240,221		50,575,414		50,821,373		48,862,196

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Net income (loss)	$ 16,021	$ 6,605	$ 4,067	$ (1,481)
Other comprehensive income (loss), net of tax:				
Translation adjustment	39,736	3,419	18,123	35,906
Unrealized gain (loss) on interest rate swaps	353	724	830	(27)
Gain (loss) on investment securities	803		1,030	(572)
Comprehensive income	56,913	10,748	24,050	33,826
Comprehensive income attributable to noncontrolling interests	(825)	(644)	(925)	(1,972)
Comprehensive income attributable to Euronet Worldwide, Inc.	$ 56,088	$ 10,104	$ 23,125	$ 31,854

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, 2009	2008
Net income (loss)	$ 4,067	$ (1,481)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	26,444	29,063
Share-based compensation	3,825	5,618
Unrealized foreign exchange (gain) loss, net	1,000	(12,693)
Non-cash impairment of goodwill and acquired intangible assets	9,884	
Non-cash impairment of investment securities		18,760
Deferred income tax expense (benefit)	(2,679)	752
Income from unconsolidated affiliates	(1,034)	(481)
Accretion of convertible debentures discount and amortization of debt issuance costs	5,855	7,630
Changes in working capital, net of amounts acquired:		
Income taxes payable, net	3,472	(557)
Restricted cash	32,460	36,971
Inventory PINs and other	8,857	(1,824)
Trade accounts receivable	28,577	2,978
Prepaid expenses and other current assets	(2,684)	10,054
Trade accounts payable	(37,890)	(85,682)
Deferred revenue	(1,896)	(490)
Accrued expenses and other current liabilities	(18,956)	48,993
Changes in noncurrent assets and liabilities	(9,284)	55
Net cash provided by operating activities	50,018	57,666
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(10,016)	(3,457)
Purchases of property and equipment	(16,783)	(21,223)
Purchases of other long-term assets	(1,360)	(1,799)
Acquisition escrow		26,000
Other, net	(270)	762
Net cash provided by (used in) investing activities	(28,429)	283
Cash flows from financing activities:		
Proceeds from issuance of shares	888	1,007
Net repayments of short-term debt obligations and revolving credit agreements classified as current liabilities	(199)	(78)
Borrowings from revolving credit agreements classified as non-current liabilities	285,400	29,300

Repayments of revolving credit agreements classified as non-current liabilities	(297,219)	(84,943)
Repayments of long-term debt obligations	(27,083)	(15,000)
Repayments of capital lease obligations	(3,149)	(4,165)
Cash dividends paid to noncontrolling interests stockholders	(2,413)	
Other, net	(613)	(399)
Net cash used in financing activities	(44,388)	(74,278)
Effect of exchange differences on cash	2,508	4,645
Decrease in cash and cash equivalents	(20,291)	(11,684)
Cash and cash equivalents at beginning of period (includes cash of discontinued operations of $552 in 2009 and $722 in 2008)	181,893	267,591
Cash and cash equivalents at end of period (includes cash of discontinued operations of $1,086 in 2009 and $300 in 2008)	$ 161,602	$ 255,907
Interest paid during the period	$ 7,162	$ 11,665
Income taxes paid during the period	11,805	10,464

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 Prepaid Processing 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 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 Money Transfer Segment, comprised primarily of the Company s RIA Envia, Inc. (RIA) subsidiary and its operating subsidiaries, is the third-largest global money transfer company based upon revenues and volumes, and provides services through a sending network of agents and Company-owned stores primarily in North America and Europe, disbursing money transfers through a worldwide payer network.

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, 2009, and the results of its operations for the three- and six-month periods ended June 30, 2009 and 2008 and its cash flows for the six-month periods ended June 30, 2009 and 2008.

The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Euronet for the year ended December 31, 2008, including the notes thereto, set forth in the Company s 2008 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 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, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009. Certain amounts in prior years have been reclassified to conform to current period presentation.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Convertible debentures

Effective January 1, 2009, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position (FSP) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 requires the proceeds from the issuance of such convertible debt instruments to be allocated between debt and equity components so that debt is discounted to reflect the Company s nonconvertible debt borrowing rate. The debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. This treatment impacts the accounting associated with the Company s convertible debentures. The Company s Unaudited Consolidated Balance Sheets, Statements of Operations, Statements of Comprehensive Income and Statements of Cash Flows have been adjusted to reflect the retrospective application of the provisions to prior periods.

Noncontrolling interests

Effective January 1, 2009, the Company adopted the provision of FASB Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 160 requires noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. The presentation of the Company s Unaudited Consolidated Balance Sheets, Statements of Operations, Statements of Comprehensive Income and Statements of Cash Flows has been adjusted to reflect the retrospective application of the provisions to prior periods.

Business combinations

Effective January 1, 2009, the Company adopted the provision of SFAS No. 141(R), Business Combinations, which is a revision of SFAS No. 141, Business Combinations. SFAS No. 141(R) applies to all business combinations and requires most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at full fair value at the acquisition date. SFAS No. 141(R) also requires transaction-related costs to be expensed in the period incurred, rather than capitalizing these costs as a component of the respective purchase price.

Accounting for derivative instruments and hedging activities

The Company accounts for derivative instruments and hedging activities in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which requires that all derivative instruments be recognized as either assets or liabilities on the balance sheet at fair value. During the second quarter 2007, the Company entered into derivative instruments to manage exposure to interest rate risk that are considered cash flow hedges under the provisions of SFAS No. 133. To qualify for hedge accounting under SFAS No. 133, the details for the hedging relationship must be formally documented at the inception of the arrangement, including the Company s hedging strategy, risk management objective, the specific risk being hedged, the derivative instrument being used, the item being hedged, an assessment of hedge effectiveness and how effectiveness will continue to be assessed and measured. For the effective portion of a cash flow hedge, changes in the value of the hedge instrument are recorded temporarily in stockholders equity and the Unaudited Consolidated Statements of Comprehensive Income as a component of other comprehensive income and then recognized as an adjustment to interest expense over the term of the hedging instrument.

In the Money Transfer Segment, 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. These forward contracts are considered derivative instruments under the provisions of SFAS No. 133, however, the Company does not designate such instruments as hedges. Accordingly, changes in the value of these contracts are recognized immediately as a component of foreign currency exchange gain (loss), net in the Unaudited Consolidated Statements of Operations. The impact of changes in value of these forward contracts, together with the impact of the change in value of the related foreign currency denominated receivable, on the Company s Unaudited Consolidated Statements of Operations is not significant.

Cash flows resulting from derivative instruments are classified as cash flows from operating activities in the Company s Unaudited Consolidated Statements of Cash Flows. The Company enters into derivative instruments with financial institutions it believes to be highly credit-worthy and does not use derivative instruments for trading or speculative purposes.

Additionally, effective January 1, 2009, the Company adopted the provisions of SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which requires an entity to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. See Note 7, Derivative Instruments and Hedging Activities, for these disclosures and a further discussion of derivative instruments.

Fair value measurements

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements, for financial assets and liabilities. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Statement applies whenever other accounting pronouncements require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. Additionally, FSP No. 157-2, Effective Date of FASB Statement No. 157, delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and liabilities. Beginning January 1, 2009, the Company adopted the provisions for those nonfinancial assets and liabilities, which include those measured at fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment and investments in unconsolidated subsidiaries.

Effective for the quarterly reporting period ended June 30, 2009, the Company adopted the provisions of FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which requires the annual fair value disclosures about financial instruments within the scope of SFAS No. 107 to also be made in interim financial statements.

See Note 9, Fair Value Measurements, for the required fair value disclosures.

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, 2009, the Company s money transfer settlement obligations were $31.9 million.

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Investment in MoneyGram International, Inc.
The Company s investment in MoneyGram International, Inc. (MoneyGram) was classified as available-for-sale as of December 31, 2007 and was recorded in other assets on the Company s Consolidated Balance Sheet. During the first quarter 2008, the Company decided not to pursue the acquisition of MoneyGram. Also, during the six months ended June 30, 2008, the value of the Company s investment in MoneyGram declined and the Company determined the decline to be other than temporary. Accordingly, the Company recognized impairment losses associated with the investment of $1.3 million in the second quarter 2008 and $18.8 million during the six months ended June 30, 2008 and reversed the $0.6 million gain recorded as of December 31, 2007 in accumulated other comprehensive income. The investment was included in other current assets on the Company s Unaudited Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008. During the first quarter 2008, the Company also recorded acquisition-related expenses totaling $3.0 million, which are included in selling, general and administrative expenses.
Subsequent events
In May 2009, the FASB issued SFAS No. 165, Subsequent Events. This standard incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, but the rules concerning recognition and disclosure of subsequent events will remain essentially unchanged. SFAS No. 165 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of SFAS No. 165 for the quarter ended June 30, 2009. The adoption of these provisions did not have a material effect on the Consolidated Financial Statements. The Company has evaluated subsequent events through August 10, 2009, the date the financial statements were issued. Events occurring after this date have not been evaluated.
Recent accounting pronouncements
In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. SFAS No. 168 authorizes the *FASB Accounting Standards Codification* (Codification) to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws remain sources of authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. All guidance contained in the Codification carries an equal level of authority. Certain accounting treatments that entities have followed, and continue to follow, which are not part of the Codification are grandfathered because they were adopted before a certain date or certain accounting standards have allowed for the continued application of superseded accounting standards. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company s adoption of SFAS No. 168 is not expected to have a material impact on the Consolidated Financial Statements. However, all references to U.S. GAAP recognized by the FASB will use Codification citations except for those to grandfathered accounting literature.
(3) EARNINGS PER SHARE
Basic earnings per share has been computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the respective period. Diluted earnings per share has been computed by dividing earnings available to common stockholders by the weighted average shares outstanding during the respective period, after adjusting for any potential dilution of 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 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Computation of diluted weighted average shares outstanding:				

Basic weighted average shares outstanding	50,425,261	48,916,432	50,358,983	48,862,196
Incremental shares from assumed conversion of stock options and restricted stock	814,960	572,266	462,390	
Weighted average shares issuable in connection with acquisition obligations		1,086,716		