

EURONET WORLDWIDE INC  
Form 10-Q  
October 28, 2016

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 September 30, 2016  
OR

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

For  
the  
to  
transition  
period

Commission File Number: 001-31648  
EURONET WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)  
Delaware 74-2806888  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

3500 College Boulevard  
Leawood, Kansas 66211  
(Address of principal executive offices) (Zip Code)  
(913) 327-4200  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

On October 27, 2016, Euronet Worldwide, Inc. had 52,206,145 shares of Common Stock outstanding.

EURONET WORLDWIDE, INC. AND SUBSIDIARIES

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

## EURONET WORLDWIDE, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	As of	
	September 30,	December 31,
	2016	2015
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$661,296	\$457,518
Restricted cash	55,689	45,312
Inventory — PINs and other	47,901	72,108
Trade accounts receivable, net of allowances for doubtful accounts of \$18,864 at September 30, 2016 and \$19,140 at December 31, 2015	377,339	423,299
Prepaid expenses and other current assets	204,024	132,773
Total current assets	1,346,249	1,131,010
Property and equipment, net of accumulated depreciation of \$270,941 at September 30, 2016 and \$242,111 at December 31, 2015	187,617	157,368
Goodwill	687,947	685,178
Acquired intangible assets, net of accumulated amortization of \$148,766 at September 30, 2016 and \$131,095 at December 31, 2015	151,881	167,972
Other assets, net of accumulated amortization of \$37,191 at September 30, 2016 and \$32,434 at December 31, 2015	63,779	51,186
Total assets	\$2,437,473	\$2,192,714
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$326,576	\$456,159
Accrued expenses and other current liabilities	520,002	382,873
Current portion of capital lease obligations	2,548	1,991
Short-term debt obligations and current maturities of long-term debt obligations	15,873	12,060
Income taxes payable	31,766	14,962
Deferred revenue	39,912	35,887
Total current liabilities	936,677	903,932
Debt obligations, net of current portion	514,648	405,472
Capital lease obligations, net of current portion	4,865	4,147
Deferred income taxes	35,624	33,924
Other long-term liabilities	19,629	19,311
Total liabilities	1,511,443	1,366,786
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; 58,286,616 issued at September 30, 2016 and 57,961,043 issued at December 31, 2015	1,166	1,159
Additional paid-in-capital	1,040,593	1,023,254
	(214,958 )	(138,750 )

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Treasury stock, at cost, 6,084,115 shares at September 30, 2016 and 4,929,241 shares at December 31, 2015

Retained earnings	249,931	104,427
Accumulated other comprehensive loss	(152,054 )	(165,528 )
Total Euronet Worldwide, Inc. stockholders' equity	924,678	824,562
Noncontrolling interests	1,352	1,366
Total equity	926,030	825,928
Total liabilities and equity	\$2,437,473	\$2,192,714

See accompanying notes to the unaudited consolidated financial statements.

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EURONET WORLDWIDE, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited, in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	\$524,025	\$481,373	\$1,438,786	\$1,301,683
Operating expenses:				
Direct operating costs	300,159	282,313	853,544	791,749
Salaries and benefits	71,899	67,070	212,974	192,158
Selling, general and administrative	41,379	43,723	121,678	116,373
Depreciation and amortization	20,120	17,993	58,923	51,786
Total operating expenses	433,557	411,099	1,247,119	1,152,066
Operating income	90,468	70,274	191,667	149,617
Other income (expense):				
Interest income	349	539	1,244	1,642
Interest expense	(7,724)	(6,690)	(20,968)	(18,482)
Foreign currency exchange loss, net	(1,527)	(16,010)	(1,299)	(34,066)
Other (losses) gains	—	(73)	19,903	315
Other expense, net	(8,902)	(22,234)	(1,120)	(50,591)
Income before income taxes	81,566	48,040	190,547	99,026
Income tax expense	(20,784)	(16,716)	(45,104)	(34,056)
Net income	60,782	31,324	145,443	64,970
Net (income) loss attributable to noncontrolling interests	(49)	10	61	351
Net income attributable to Euronet Worldwide, Inc.	\$60,733	\$31,334	\$145,504	\$65,321
Earnings per share attributable to Euronet Worldwide, Inc. stockholders:				
Basic	\$1.16	\$0.60	\$2.78	\$1.25
Diluted	\$1.11	\$0.57	\$2.66	\$1.21
Weighted average shares outstanding:				
Basic	52,134,500	52,617,245	52,293,808	52,075,388
Diluted	54,523,211	54,544,763	54,641,388	53,944,248

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$60,782	\$31,324	\$145,443	\$64,970
Translation adjustment	6,849	(20,325 )	13,522	(55,265 )
Comprehensive income	67,631	10,999	158,965	9,705
Comprehensive (income) loss attributable to noncontrolling interests	(64 )	6	14	462
Comprehensive income attributable to Euronet Worldwide, Inc.	\$67,567	\$11,005	\$158,979	\$10,167

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)

	Nine Months Ended September 30, 2016		2015	
Net income	\$	145,443	\$	64,970
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	58,923		51,786	
Share-based compensation	11,352		9,265	
Unrealized foreign exchange loss, net	1,299		34,066	
Deferred income taxes	993		31	
Accretion of convertible debt discount and amortization of debt issuance costs	9,056		9,154	
Gain on sale of investment	(19,449	)	—	
Changes in working capital, net of amounts acquired:				
Income taxes payable, net	16,006		(14,165	)
Restricted cash	(10,227	)	21,843	
Inventory — PINs and other	25,948		23,180	
Trade accounts receivable	54,356		31,982	
Prepaid expenses and other current assets	(76,594	)	(28,264	)
Trade accounts payable	(133,207	)	(30,707	)
Deferred revenue	3,181		(1,990	)
Accrued expenses and other current liabilities	135,431		63,350	
Changes in noncurrent assets and liabilities	(5,020	)	(2,983	)
Net cash provided by operating activities	217,491		231,518	
Cash flows from investing activities:				
	(2,183	)	(113,969	)

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Acquisitions, net of cash acquired			
Purchases of property and equipment	(61,597	)	(55,305
Purchases of other long-term assets	(4,501	)	(4,976
Proceeds from sale of investment	11,900		—
Other, net	800		1,138
Net cash used in investing activities	(55,581	)	(173,112
Cash flows from financing activities:			
Proceeds from issuance of shares	5,098		6,747
Repurchase of shares	(76,510	)	(5,174
Borrowings from revolving credit agreements	1,961,814		751,813
Repayments of revolving credit agreements	(1,855,053	)	(715,437
Repayments of long-term debt obligations	(5,156	)	(3,750
Repayments of capital lease obligations	(1,997	)	(2,531
Borrowings from (repayments of) short-term debt obligations, net	2,290		(1,265
Other, net	748		847
Net cash provided by financing activities	31,234		31,250
Effect of exchange rate changes on cash and cash equivalents	10,634		(28,832
Increase in cash and cash equivalents	203,778		60,824
Cash and cash equivalents at beginning of period	457,518		468,010
Cash and cash equivalents at end of period	\$ 661,296		\$ 528,834
Supplemental disclosure of cash flow information:			
	\$ 12,598		\$ 7,091

Interest paid during the period

Income taxes paid during the period	\$	31,751	\$	43,210
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Supplemental disclosure of non-cash investing and financing activities

Non-cash consideration received from sale of investment	\$	7,549	\$	—
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Equity issued in connection with acquisitions	\$	—	\$	43,061
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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. (together with its subsidiaries, the “Company” or “Euronet”) is a leading electronic payments provider. Euronet offers payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Euronet's 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, foreign currency exchange services and global money transfer services.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared from the records of the Company, in conformity with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, such unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly present the consolidated financial position and the results of operations, comprehensive income and cash flows for the interim periods. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2015, including the notes thereto, set forth in the Company’s 2015 Annual Report on Form 10-K. Certain amounts in prior years have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Significant items subject to such estimates and assumptions include computing income taxes, estimating the useful lives and potential impairment of long-lived assets and goodwill, as well as allocating the purchase price to assets acquired and liabilities assumed in acquisitions and revenue recognition. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

Seasonality

Euronet’s EFT Processing Segment experiences its heaviest demand for dynamic currency conversion (“DCC”) services during the third quarter of the fiscal year, coinciding with tourism season. Additionally, the EFT Processing and epay Segments are impacted by seasonality during the fourth quarter and the first quarter of each year due to higher transaction levels during the holiday season and lower levels following the holiday season. Seasonality in the Money Transfer Segment varies by regions of the world. In most markets, Euronet usually experiences increased demand for money transfer services from the month of May through the fourth quarter of each year, coinciding with the increase in worker migration patterns and various holidays, and experiences its lowest transaction levels during the first quarter of each year.

(2) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific issues on how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The amendments of this ASU are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements and related disclosures. In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical

experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which addresses how companies account for certain aspects of share-based payments to

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employees. Entities will be required to recognize the income tax effects of awards in the statement of income when the awards vest or are settled, and to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The ASU also addresses such areas as an accounting policy election for forfeitures and the amount an employer can withhold to cover income taxes and still qualify for equity classification. The amendments in this ASU will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815), Contingent Put and Call Options in Debt Instruments. The new standard clarifies that an entity is required to assess whether the economic characteristics and risks of embedded put or call options are clearly and closely related to those of their debt hosts only in accordance with the four-step decision sequence in Accounting Standards Codification ("ASC") 815, Derivatives and Hedging. For contingently exercisable put or call options, an entity does not have to assess whether the event that triggers the ability to exercise a put or call option is related to interest rates or credit risk of the entity. The ASU does not change the existing criteria for determining when bifurcation of an embedded put or call option in a debt instrument is required. The amendments of this ASU are effective for annual periods beginning after December 15, 2016, with early adoption permitted. Entities are required to apply the guidance to existing debt instruments using a modified retrospective transition method as of the period of adoption. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-04, Recognition of Breakage for Certain Prepaid Stored-Value Products. The new standard specifies that liabilities within its scope are considered to be financial liabilities, and amends the guidance in ASC 405-20, Extinguishments of Liabilities, by directing entities to derecognize prepaid stored-value product liabilities based on expected breakage in proportion to the pattern of rights expected to be exercised by the consumer. Derecognition for breakage is permitted only to the extent that it is probable that a significant reversal of recognized breakage will not subsequently occur. The new standard is consistent with the breakage guidance in the new revenue standard. The ASU is effective for annual periods beginning after December 15, 2017, and is applied either using a modified retrospective transition method or retrospectively. Early adoption is permitted. The Company is currently evaluating the expected impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will update the existing guidance on accounting for leases and require new qualitative and quantitative disclosures about the Company's leasing activities. The new standard requires lessees to account for all leases on the balance sheet, except for certain short-term leases that have a maximum possible lease term of 12 months. The accounting for lessors is largely unchanged from the previous accounting guidance, except for leverage lease accounting which is not permitted for leases entered into or modified after the effective date of the new standard. The new standard is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that the Company may elect to apply. The Company is currently evaluating the expected impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company does not expect that the adoption of this standard will have a significant impact on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of the effective date of the new revenue recognition standard. The new standard will become effective for the Company on January 1, 2018 and the Company has the

option to adopt it effective January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net). In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-11, Revenue from Contracts with Customers (Topic 606) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of ASU 2014-09 and 2014-16, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606) - Narrow Scope Improvements and Practical Expedients. These ASUs clarify the implementation guidance on a few narrow areas and adds some practical expedients to the guidance Topic 606.

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The Company is evaluating the effect the ASUs will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of these standards on its ongoing financial reporting.

**(3) STOCKHOLDERS' EQUITY****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 periods. 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 options to purchase the Company's common stock, assumed vesting of restricted stock and the assumed conversion of the Company's convertible debentures. The following table provides the computation of diluted weighted average number of common shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Computation of diluted weighted average shares outstanding:				
Basic weighted average shares outstanding	52,134,500	52,617,245	52,293,808	52,075,388
Incremental shares from assumed exercise of stock options and vesting of restricted stock	1,731,451	1,784,106	1,690,320	1,725,448
Incremental shares from assumed conversion of convertible notes	657,260	143,412	657,260	143,412
Diluted weighted average shares outstanding	54,523,211	54,544,763	54,641,388	53,944,248

The table includes the impact of all stock options and restricted stock that are dilutive to the Company's weighted average common shares outstanding during the three and nine months ended September 30, 2016 and 2015. The calculation of diluted earnings 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 552,000 and 555,000 for the three and nine months ended September 30, 2016, respectively, and approximately 578,000 and 614,000 for the three and nine months ended September 30, 2015, respectively.

During 2016 and 2015, the Company had convertible notes outstanding that, if converted, could have had a potentially dilutive effect on its common stock. At issuance, the Company stated its intent to settle any conversion of these notes by paying cash for the principal value and issuing common stock for any conversion value in excess of the principal value. As of September 30, 2016, and currently, the Company maintains the intent and ability to settle any conversion as stated. Accordingly, the convertible notes would only have a dilutive effect if the market price per share of common stock exceeds the conversion price per share of common stock, which it did as of September 30, 2016 and 2015. Therefore, according to ASC 260, Earnings per Share, these notes were dilutive to earnings per share for the three and nine months ended September 30, 2016 and 2015. See Note 6, Debt Obligations, for more information about the convertible notes.

**Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income consists entirely of foreign currency translation adjustments. The Company recorded foreign currency translation gains of \$6.8 million and \$13.5 million for the three and nine months ended September 30, 2016, respectively, and losses of \$20.3 million and \$55.3 million for the three and nine months ended September 30, 2015, respectively. There were no reclassifications of foreign currency translation into the consolidated statements of income for the three and nine months ended September 30, 2016 and 2015.

**Share Repurchase**

In January 2016, the Company announced that its Board of Directors authorized a stock repurchase program ("2016 Program") allowing the Company to repurchase up to \$100 million in value or 5 million shares of its common stock through December 10, 2017. During the nine months ended September 30, 2016, the Company repurchased 1.1 million shares at a weighted average purchase price of \$65.74 for a total value of \$75.6 million under the 2016 Program.

In June 2016, the Board of Directors authorized an additional stock repurchase program ("Repurchase Program") with an effective date of July 28, 2016, allowing Euronet to repurchase up to \$125 million in value or 3 million shares of its

common stock through June 14, 2018. Repurchases under the Repurchase Program may take place in the open market or in privately

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negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. No purchases have been made under this plan.

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

A summary of acquired intangible assets and goodwill activity for the nine months ended September 30, 2016 is presented below:

(in thousands)	Acquired		Total
	Intangible Assets	Goodwill	Intangible Assets
Balance as of December 31, 2015	\$167,972	\$685,178	\$853,150
Increases (Decreases):			
Acquisitions	5,022	(2,558 )	2,464
Amortization	(18,985 )	—	(18,985 )
Other (primarily changes in foreign currency exchange rates)	(2,128 )	5,327	3,199
Balance as of September 30, 2016	\$151,881	\$687,947	\$839,828

During the first quarter of 2016, the Company completed its valuation of the acquired assets and liabilities of the 2015 acquisitions of XE Corporation (“XE”) and IME(M) Sdn Bhd (“IME”), which included an adjustment to goodwill and acquired intangible assets.

Estimated amortization expense on intangible assets with finite lives, before income taxes, as of September 30, 2016, is expected to total \$6.1 million for the remainder of 2016, \$22.7 million for 2017, \$20.4 million for 2018, \$19.7 million for 2019, \$19.1 million for 2020 and \$18.1 million for 2021.

The Company’s annual goodwill impairment test is performed during the fourth quarter of its fiscal year. The annual impairment test for the year ended December 31, 2015 resulted in no impairment charge.

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 the estimates or assumptions included in the 2015 annual impairment test could change, which may result in the Company recording material non-cash impairment charges during the year in which these changes take place.

**(5) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

(in thousands)	As of	
	September 30, 2016	December 31, 2015
Accrued expenses	\$155,026	\$125,366
Money transfer settlement obligations	204,444	159,854
Accrued amounts due to mobile operators and other content providers	99,347	71,762
Derivative liabilities	61,185	25,891
Total	\$520,002	\$382,873

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## (6) DEBT OBLIGATIONS

Debt obligations consist of the following:

(in thousands)	As of September 30, 2016	December 31, 2015
Credit Facility:		
Term loan, due 2019 \$	61,875	\$ 67,031
Revolving credit agreements, due 2019	114,406	7,701
	176,281	74,732
Convertible Debt:		
1.50% convertible notes, unsecured, due 2044	355,639	347,878
Other obligations	8,118	5,731
Total debt obligations	540,038	428,341
Unamortized debt issuance costs	(9,517)	(10,809)
Carrying value of debt	530,521	417,532
Short-term debt obligations and current maturities of long-term debt obligations	(15,873)	(12,060)
Long-term debt obligations	\$ 514,648	\$ 405,472

## Credit Facility

As of September 30, 2016, the Company had a \$675 million senior secured credit facility (the "Credit Facility") consisting of a \$600 million revolving credit facility and a \$75 million term loan ("Term Loan A"), which had been reduced to \$61.9 million through principal amortization payments. The Credit Facility expires April 9, 2019. Interest on borrowings under the revolving credit facility and Term Loan A varies based upon the Company's consolidated total leverage ratio, as defined in the Company's credit agreement, and is based on a margin over the London Inter-Bank Offered Rate ("LIBOR") or a margin over a base rate, as selected by the Company, with the applicable margin ranging from 1.375% to 2.375% for LIBOR loans or 0.375% to 1.375% for base rate loans. Accordingly, the weighted average interest rate for borrowings outstanding under the Company's revolving credit facility and Term Loan A was 2.69% and 2.15%, respectively, as of September 30, 2016.

## Convertible Debt

The Convertible Senior Notes due 2044 ("Convertible Notes") had a principal amount outstanding of \$402.5 million as of September 30, 2016. Contractual interest expense was \$1.5 million and \$4.5 million for the three and nine months ended September 30, 2016 and 2015, respectively. Accretion expense was \$2.6 million and \$7.7 million for the three and nine months ended September 30, 2016, respectively, and \$2.5 million and \$7.4 million for the three and nine months ended September 30, 2015, respectively. The effective interest rate was 4.7% for the three and nine months ended September 30, 2016. As of September 30, 2016, the unamortized discount was \$46.9 million, and will be amortized through October 1, 2020.

(7) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to foreign currency exchange risk resulting from (i) the collection of funds or the settlement of money transfer transactions in currencies other than the U.S. Dollar, (ii) derivative contracts written to its customers in connection with providing cross-currency money transfer services and (iii) short-term borrowings that are payable in currencies other than the U.S. dollar. The Company enters into foreign currency derivative contracts, primarily foreign currency forwards and cross-currency swaps, to minimize its exposure related to fluctuations in foreign currency exchange rates. As a matter of Company policy, the derivative instruments used in these activities are economic hedges and are not designated as hedges under ASC Topic 815, Derivatives and Hedging, primarily due to either the relatively short duration of the contract term or the effects of fluctuations in currency exchange rates being reflected concurrently in earnings for both the derivative instrument and the transaction and having an offsetting effect.

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## Foreign currency exchange contracts - Ria Operations and Corporate

In the United States, the Company's Ria operations use short-duration foreign currency forward contracts, generally with maturities up to 14 days, to offset the fluctuation in foreign currency exchange rates on the collection of money transfer funds between initiation of a transaction and its settlement. Due to the short duration of these contracts and the Company's credit profile, the Company is generally not required to post collateral with respect to these foreign currency forward contracts. Most derivative contracts executed with counterparties in the U.S. are governed by an International Swaps and Derivatives Association agreement that includes standard netting arrangements; therefore, asset and liability positions from forward contracts and all other foreign exchange transactions with the same counterparty are net settled upon maturity. As of September 30, 2016, the Company held in its Ria operations foreign currency forward contracts outstanding in the U.S. with a notional value of \$216 million, primarily in Australian dollars, Canadian dollars, British pounds, euros and Mexican pesos.

In addition, the Company uses forward contracts, typically with maturities from a few days to less than one year, to offset foreign exchange rate fluctuations on certain foreign currency denominated other asset and liability positions. As of September 30, 2016, the Company had foreign currency forward contracts outstanding with a notional value of \$261 million, primarily in British pounds, euros and Polish zloty.

## Foreign currency exchange contracts - HiFX Operations

HiFX writes derivative instruments, primarily foreign currency forward contracts and cross-currency swaps, mostly with counterparties comprised of individuals and small-to-medium size businesses and derives a currency margin from this activity as part of its operations. HiFX aggregates its foreign currency exposures arising from customer contracts and may hedge some or all of the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties. Foreign exchange revenues from HiFX's total portfolio of positions were \$14.4 million and \$48.3 million for the three and nine months ended September 30, 2016, respectively, and \$15.5 million and \$47.1 million for the three and nine months ended September 30, 2015, respectively. All of the derivative contracts used in the Company's HiFX operations are economic hedges and are not designated as hedges under ASC Topic 815. The duration of these derivative contracts is generally less than one year.

The fair value of HiFX's total portfolio of positions can change significantly from period to period based on, among other factors, market movements and changes in customer contract positions. HiFX manages counterparty credit risk (the risk that counterparties will default and not make payments according to the terms of the agreements) on an individual counterparty basis. It mitigates this risk by entering into contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. HiFX does not expect any significant losses from counterparty defaults.

The aggregate equivalent U.S. dollar notional amounts of foreign currency derivative customer contracts held by the Company in its HiFX operations as of September 30, 2016 was approximately \$1.2 billion. The majority of customer contracts are written in major currencies such as the U.S. dollar, euro, New Zealand dollar, British pound, and Australian dollar.

## Balance Sheet Presentation

The following table summarizes the fair value of the derivative instruments as recorded in the Consolidated Balance Sheets as of the dates below:

(in thousands)	Asset Derivatives		Liability Derivatives			
	Balance Sheet Location	Fair Value September 30, 2016	Fair Value December 31, 2015	Balance Sheet Location	Fair Value September 30, 2016	Fair Value December 31, 2015
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	Other current assets	\$77,676	\$ 37,034	Other current liabilities	\$(61,185)	\$(25,891)



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The following tables summarize the gross and net fair value of derivative assets and liabilities as of September 30, 2016 and December 31, 2015 (in thousands):

Offsetting of Derivative Assets

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amounts
As of September 30, 2016						
Derivatives subject to a master netting arrangement or similar agreement	\$ 77,676	\$ —	—\$ 77,676	\$(45,523)	\$(10,205)	\$ 21,948
As of December 31, 2015						
Derivatives subject to a master netting arrangement or similar agreement	\$ 37,034	\$ —	—\$ 37,034	\$(19,786)	\$(6,415)	\$ 10,833

Offsetting of Derivative Liabilities

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Paid	Net Amounts
As of September 30, 2016						
Derivatives subject to a master netting arrangement or similar agreement	\$(61,185)	\$ —	—\$(61,185)	\$45,523	\$ 3,002	\$(12,660)
As of December 31, 2015						
Derivatives subject to a master netting arrangement or similar agreement	\$(25,891)	\$ —	—\$(25,891)	\$19,786	\$ 1,741	\$(4,364)

Income Statement Presentation

The following tables summarize the location and amount of gains and losses of derivatives in the Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	Location of Gain (Loss) Recognized in Income on Derivative Contracts	Amount of Gain (Loss) Recognized in Income on Derivative Contracts (a)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015

Foreign currency exchange contracts - Ria Operations	Foreign currency exchange gain (loss), net	\$ (1,825)	\$ 1,025	\$ (646)	\$ 991
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(a) The Company enters into derivative contracts such as foreign currency exchange forwards and cross-currency swaps as part of its HiFX operations. These derivative contracts are excluded from this table as they are part of the broader disclosure of foreign currency exchange revenues for this business discussed above.

See Note 8, Fair Value Measurements, for the determination of the fair values of derivatives.

Table of Contents**(8) FAIR VALUE MEASUREMENTS**

Fair value measurements used in the unaudited consolidated financial statements are based upon the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the inputs that market participants would use in pricing.

The following table details financial assets and liabilities measured and recorded at fair value on a recurring basis:

		As of September 30, 2016			
(in thousands)	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Assets					
Foreign currency exchange contracts	Other current assets	\$-\$77,676			\$-\$77,676
Liabilities					
Foreign currency exchange contracts	Other current liabilities	\$-\$ (61,185)			\$-\$ (61,185)
		As of December 31, 2015			
(in thousands)	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Assets					
Foreign currency exchange contracts	Other current assets	\$-\$37,034			\$-\$37,034
Liabilities					
Foreign currency exchange contracts	Other current liabilities	\$-\$ (25,891)			\$-\$ (25,891)

**Other Fair Value Disclosures**

The carrying amounts of cash and cash equivalents, accounts receivable, trade accounts payable, accrued expenses and other current obligations approximate their fair values because of the relatively short-term maturities of these financial instruments. The carrying values of the Company's long-term debt (other than the Convertible Notes), including the current portion, approximate fair value because interest is primarily based on LIBOR, which resets at various intervals of less than one year. The Company estimates the fair value of the Convertible Notes using quoted prices in inactive markets for identical liabilities (Level 2). As of September 30, 2016 and December 31, 2015, the fair values of the Convertible Notes were \$546.9 million and \$509.7 million, respectively, with carrying values of \$355.6 million and \$347.9 million, respectively.

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## (9) SEGMENT INFORMATION

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

1) Through the EFT Processing Segment, the Company processes transactions for a network of ATMs and POS terminals across Europe, the Middle East and Asia Pacific. The Company provides comprehensive electronic payment solutions consisting of ATM cash withdrawal services, ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, dynamic currency conversion and other value added services. Through this segment, the Company also offers a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.

2) Through the epay Segment, the Company provides distribution, processing and collection services for prepaid mobile airtime and other electronic payment products in Europe, the Middle East, Asia Pacific, the United States and South America.

3) Through the Money Transfer Segment, the Company provides global money transfer services under the brand names Ria, HiFX, IME and XE. Ria and IME provide global consumer-to-consumer money transfer services through a network of sending agents, Company-owned stores and Company-owned websites, disbursing money transfers through a worldwide correspondent network. HiFX offers account-to-account international payment services to high-income individuals and small-to-medium sized businesses. XE is a provider of foreign currency exchange information and offers money transfers on its currency data websites, which are executed by a third party. The Company also offers customers bill payment services, payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services, foreign currency exchange services and mobile top-up. The Company provides cash management solutions and foreign currency risk management services to small-to-medium sized businesses under the brand name HiFM.

In addition, the Company accounts for non-operating activity, most share-based compensation expense, certain intersegment eliminations and the costs of providing corporate and other administrative services in its administrative division, "Corporate Services, Eliminations and Other." These services are not directly identifiable with the Company's reportable operating segments.

The following tables present the Company's reportable segment results for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	For the Three Months Ended September 30, 2016				
	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$ 152,586	\$ 167,226	\$ 204,611	\$ (398 )	\$ 524,025
Operating expenses:					
Direct operating costs	62,401	128,212	109,944	(398 )	300,159
Salaries and benefits	12,954	13,352	38,365	7,228	71,899
Selling, general and administrative	7,642	8,133	23,924	1,680	41,379
Depreciation and amortization	10,151	2,734	7,195	40	20,120
Total operating expenses	93,148	152,431	179,428	8,550	433,557
Operating income (expense)	\$ 59,438	\$ 14,795	\$ 25,183	\$ (8,948 )	\$ 90,468

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(in thousands)	For the Three Months Ended September 30, 2015				
	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$118,895	\$174,547	\$188,232	\$ (301 )	\$ 481,373
Operating expenses:					
Direct operating costs	51,550	133,124	97,928	(289 )	282,313
Salaries and benefits	11,862	12,745	36,187	6,276	67,070
Selling, general and administrative	7,052	11,411	23,356	1,904	43,723
Depreciation and amortization	8,115	2,660	7,011	207	17,993
Total operating expenses	78,579	159,940	164,482	8,098	411,099
Operating income (expense)	\$40,316	\$14,607	\$23,750	\$ (8,399 )	\$ 70,274

(in thousands)	For the Nine Months Ended September 30, 2016				
	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$354,282	\$497,945	\$587,664	\$ (1,105 )	\$ 1,438,786
Operating expenses:					
Direct operating costs	165,520	379,423	309,706	(1,105 )	853,544
Salaries and benefits	37,601	38,052	114,582	22,739	212,974
Selling, general and administrative	22,154	25,291	68,930	5,303	121,678
Depreciation and amortization	28,411	8,498	21,868	146	58,923
Total operating expenses	253,686	451,264	515,086	27,083	1,247,119
Operating income (expense)	\$100,596	\$46,681	\$72,578	\$ (28,188 )	\$ 191,667

(in thousands)	For the Nine Months Ended September 30, 2015				
	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	\$286,650	\$517,296	\$498,689	\$ (952 )	\$ 1,301,683
Operating expenses:					
Direct operating costs	135,754	396,860	260,008	(873 )	791,749
Salaries and benefits	34,466	37,172	100,581	19,939	192,158
Selling, general and administrative	19,432	28,439	63,089	5,413	116,373
Depreciation and amortization	23,274	8,465	19,703	344	51,786
Total operating expenses	212,926	470,936	443,381	24,823	1,152,066
Operating income (expense)	\$73,724	\$46,360	\$55,308	\$ (25,775 )	\$ 149,617

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The following table presents the Company's property and equipment and total assets by reportable segment:

(in thousands)	Property and Equipment, net as of		Total Assets as of	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
EFT Processing	\$ 124,926	\$ 99,798	\$ 705,803	\$ 469,351
epay	24,992	24,834	589,165	646,000
Money Transfer	37,608	32,591	1,125,467	1,040,737
Corporate Services, Eliminations and Other	91	145	17,038	36,626
Total	\$ 187,617	\$ 157,368	\$ 2,437,473	\$ 2,192,714

**(10) INCOME TAXES**

The Company's effective income tax rates were 25.5% and 23.7% for the three and nine months ended September 30, 2016, respectively, compared to 34.8% and 34.4% for the three and nine months ended September 30, 2015, respectively. The effective income tax rate for the three and nine months ended September 30, 2015 were significantly influenced by foreign currency exchange losses, most of which are not currently deductible for income tax purposes, resulting in a higher effective income tax rate when compared to the same period of 2016. Excluding this item from pre-tax income, as well as the related tax effect, the effective income tax rates were 25.8% and 25.4% for the three and nine months ended September 30, 2015, respectively.

The Company's effective income tax rates for the three and nine months ended September 30, 2016 and 2015, as adjusted for foreign currency exchange gains and losses, were lower than the applicable statutory income tax rate of 35% primarily because of the Company's U.S. income tax positions. The Company does not have a history of significant taxable income in the U.S.; therefore, the Company has recorded a valuation allowance against its U.S. federal tax net operating loss carryforwards. Accordingly, in instances when the Company's U.S. legal entities generate pre-tax U.S. GAAP income, no income tax expense is recognized to the extent there are net operating loss carry forwards to offset the pre-tax U.S. GAAP income.

**(11) COMMITMENTS**

As of September 30, 2016, the Company had \$70.7 million of stand-by letters of credit/bank guarantees issued on its behalf, of which \$46.6 million are outstanding under the revolving credit facility. The remaining stand-by letters of credit/bank guarantees are collateralized by \$3.1 million of cash deposits held by the respective issuing banks.

Under certain circumstances, Euronet grants guarantees in support of obligations of subsidiaries. As of September 30, 2016, the Company had granted off balance sheet guarantees for cash in various ATM networks amounting to \$18.2 million over the terms of the cash supply agreements and performance guarantees amounting to approximately \$4.4 million over the terms of agreements with the customers.

Once each of Euronet's subsidiaries reaches a certain size, it is required under the Credit Facility to provide a guarantee of all or a portion of the outstanding obligations under the Credit Facility depending upon whether the subsidiary is a domestic or foreign entity.

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

In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for damage to ATMs and theft of ATM network cash that, generally, is not recorded on the Company's Consolidated Balance Sheets. As of September 30, 2016, the balance of cash used in the Company's ATM networks for which the Company was responsible was approximately \$524 million. The Company maintains insurance policies to mitigate this exposure;

In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for losses suffered by its customers and other parties as a result of the breach of its computer systems, including in particular, losses arising from fraudulent transactions made using information stolen through its processing systems. The Company maintains systems of internal controls and insurance policies to mitigate this exposure;

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In connection with the license of proprietary systems to customers, the Company provides certain warranties and infringement indemnities to the licensee, which generally warrant that such systems do not infringe on intellectual property owned by third parties and that the systems will perform in accordance with their specifications; Euronet has entered into purchase and service agreements with vendors and consulting agreements with providers of consulting services, pursuant to which the Company has agreed to indemnify certain of such vendors and consultants, respectively, against third-party claims arising from the Company's use of the vendor's product or the services of the vendor or consultant;

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

Euronet has entered into agreements with certain third parties, including banks that provide fiduciary and other services to Euronet or to the Company's benefit plans. Under such agreements, the Company has agreed to indemnify such service providers for third-party claims relating to carrying out their respective duties under such agreements. The Company is also required to meet minimum capitalization and cash requirements of various regulatory authorities in the jurisdictions in which the Company has money transfer operations. The Company has obtained surety bonds in compliance with money transfer licensing requirements of the applicable governmental authorities.

To date, the Company is not aware of any significant claims made by the indemnified parties or third parties to guarantee agreements with the Company and, accordingly, no liabilities were recorded as of September 30, 2016 or December 31, 2015.

(12) LITIGATION AND CONTINGENCIES

From time to time, the Company is a party to legal or regulatory proceedings arising in the ordinary course of its business. Currently, there are no legal proceedings or regulatory findings that management believes, either individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial condition or results of operations. In accordance with U.S. GAAP, the Company records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

(13) SUBSEQUENT EVENTS

On October 3, 2016, the Company completed the acquisition of YourCash Europe Limited, a U.K. based ATM operator with approximately 5,000 cash machines across the U.K., Netherlands, Belgium and Ireland. We acquired the business for approximately \$65 million in cash, which includes \$3.2 million of deferred consideration.

This transaction will be recorded as a business combination, and the purchase price will be allocated to the assets acquired and liabilities assumed based on their estimated fair values. Due to the timing of this transaction, the allocation of purchase price has not been finalized pending valuation of intangible assets acquired.

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

The terms "Euronet," the "Company," "we" and "us" as used herein refer to Euronet Worldwide, Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Generally, the words "believe," "expect," "anticipate," "intend," "estimate," "will" and similar expressions identify forward-looking statements. However, the absence of these words or similar expressions does not mean the statement is not forward-looking. All statements other than statements of historical facts included in this document are forward-looking statements, including, but not limited to, statements regarding the following:

- our business plans and financing plans and requirements;
- trends affecting our business plans and financing plans and requirements;
- trends affecting our business;
- the adequacy of capital to meet our capital requirements and expansion plans;
- the assumptions underlying our business plans;
- our ability to repay indebtedness;
- our estimated capital expenditures;
- the potential outcome of loss contingencies;
- our expectations regarding the closing of any pending acquisitions;
- business strategy;
- government regulatory action;
- technological advances; and
- projected costs and revenues.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct.

Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may materially differ from those in the forward-looking statements as a result of various factors, including, but not limited to, conditions in world financial markets and general economic conditions, including the effects in Europe of the recent Brexit vote and economic conditions in specific countries and regions; technological developments affecting the markets for our products and services; our ability to successfully introduce new products and services; foreign currency exchange rate fluctuations; the effects of any breach of our computer systems or those of our customers or vendors, including our financial processing networks; our ability to renew existing contracts at profitable rates; changes in fees payable for transactions performed for cards bearing international logos or over switching networks such as card transactions on ATMs; our ability to comply with increasingly stringent regulatory requirements, including anti-money laundering, anti-terrorism and anti-bribery requirements; changes in laws and regulations affecting our business, including immigration laws; changes in our relationships with, or in fees charged by, our business partners; competition; the outcome of claims and other loss contingencies affecting Euronet; and those other factors referred to above and as set forth and more fully described in Part I, Item 1A — Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2015 and Part II, Item IA - Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016. Our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q are available on the SEC's EDGAR website at [www.sec.gov](http://www.sec.gov), and copies may also be obtained by contacting the Company. All forward-looking statements made in this Form 10-Q speak only as of the date of this report. Except as required by law, we do not intend, and do not undertake any obligation, to update any forward-looking statements to reflect future events or circumstances after the date of such statements.



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### OVERVIEW

#### COMPANY OVERVIEW, GEOGRAPHIC LOCATIONS AND PRINCIPAL PRODUCTS AND SERVICES

Euronet 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, foreign currency exchange services and global money transfer services. We operate in the following three segments:

The EFT Processing Segment, which processes transactions for a network of 29,276 ATMs and approximately 156,000 POS terminals across Europe, the Middle East and Asia Pacific. We provide comprehensive electronic payment solutions consisting of ATM cash withdrawal and deposit services, ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, dynamic currency conversion (“DCC”), and other value added services. Through this segment, we also offer a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.

The epay Segment, which provides distribution, processing and collection services for prepaid mobile airtime and other electronic payment products. We operate a network of approximately 647,000 POS terminals providing electronic processing of prepaid mobile airtime top-up services and other electronic payment products in Europe, the Middle East, Asia Pacific, the United States and South America. We also provide vouchers and physical gift fulfillment services in Europe.

The Money Transfer Segment, which provides global consumer-to-consumer money transfer services, primarily under the brand names Ria, IME and XE, and global account-to-account money transfer services under the brand name HiFX. We offer services under the brand names Ria and IME through a network of sending agents, Company-owned stores (primarily in North America, Europe and Malaysia) and our websites ([www.riamoneytransfer.com](http://www.riamoneytransfer.com) and [www.imeremit.com](http://www.imeremit.com)), disbursing money transfers through a worldwide correspondent network that includes approximately 314,000 locations. XE is a provider of foreign currency exchange information and offers money transfer services on its currency data websites ([www.xe.com](http://www.xe.com) and [www.x-rates.com](http://www.x-rates.com)), which are executed by a third party. We offer services under the brand name HiFX through our HiFX websites ([www.hifx.co.uk](http://www.hifx.co.uk) and [www.hifx.com.au](http://www.hifx.com.au)) and HiFX customer service representatives. In addition to money transfers, we also offer customers bill payment services (primarily in the U.S.), payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services for a wide variety of issued checks, along with competitive foreign currency exchange services and mobile top-up. Through our HiFM brand, we offer cash management solutions and foreign currency risk management services to small-to-medium sized businesses.

We have six processing centers in Europe, five in Asia Pacific and two in North America. We have 32 principal offices in Europe, 12 in Asia Pacific, nine in North America, three in the Middle East, two in South America and one in Africa. Our executive offices are located in Leawood, Kansas, USA. With approximately 72% of our revenues denominated in currencies other than the U.S. dollar, any significant changes in foreign currency exchange rates will likely have a significant impact on our results of operations.

### SOURCES OF REVENUES AND CASH FLOW

Euronet primarily earns revenues and income from ATM management fees, transaction fees, commissions and foreign currency exchange margin. Each operating segment’s sources of revenues are described below.

EFT Processing Segment — Revenues in the EFT Processing Segment, which represented approximately 29% and 25% of total consolidated revenues for the third quarter and first nine months of 2016, respectively, are primarily derived from fees charged for transactions made by cardholders on our proprietary network of ATMs, fixed management fees and transaction fees we charge to customers for operating ATMs and processing debit and credit cards under outsourcing and cross-border acquiring agreements, foreign currency exchange margin on DCC transactions, and other value added services such as advertising, prepaid telecommunication recharges, bill payment, and money transfers provided over ATMs. Revenues in this segment are also derived from license fees, professional services and

maintenance fees for proprietary application software and sales of related hardware.

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epay Segment — Revenues in the epay Segment, which represented approximately 32% and 35% of total consolidated revenues for the third quarter and first nine months of 2016, respectively, are primarily derived from commissions or processing fees received from mobile phone operators for the processing and distribution of prepaid mobile airtime and commissions earned from the distribution of other electronic payment products, vouchers, and physical gifts. The proportion of epay Segment revenues earned from the distribution of prepaid mobile phone time as compared with other electronic products has decreased over time, and non-mobile content now produces over 50% of epay Segment revenues. Other electronic payment products offered by this segment include prepaid long distance calling card plans, prepaid Internet plans, prepaid debit cards, gift cards, vouchers, transport payments, lottery payments, bill payment, money transfer and digital content such as music, games and software. Agreements with mobile operators and prepaid content providers are important to the success of our business and these agreements permit us to distribute prepaid mobile airtime and other electronic payment products to retailers.

Money Transfer Segment — Revenues in the Money Transfer Segment, which represented approximately 39% and 40% of total consolidated revenues for the third quarter and first nine months of 2016, respectively, are primarily derived from transaction fees, as well as the margin earned from purchasing foreign currency at wholesale exchange rates and selling the foreign currency to customers at retail exchange rates. We have a sending agent network in place comprised of agents, customer service representatives, Company-owned stores, primarily in North America, Europe, and Malaysia, and our websites [www.riamoneytransfer.com](http://www.riamoneytransfer.com), [www.hifx.co.uk](http://www.hifx.co.uk), [www.hifx.com.au](http://www.hifx.com.au), [www.imeremit.com](http://www.imeremit.com), [www.xe.com](http://www.xe.com) and [www.x-rates.com](http://www.x-rates.com), along with a worldwide network of correspondent agents, consisting primarily of financial institutions in the transfer destination countries. Sending and correspondent agents each earn fees for cash collection and distribution services, which are recognized as direct operating costs at the time of sale.

The Company offers a money transfer product called Walmart-2-Walmart Money Transfer Service which allows customers to transfer money to and from Walmart stores in the U.S. Our Ria business executes the transfers with Walmart serving as both the sending agent and payout correspondent. Ria earns a lower margin from these transactions than its traditional money transfers; however, the arrangement has added a significant number of transactions to Ria’s business. The agreement with Walmart establishes Ria as the only party through which Walmart will sell U.S. domestic money transfers branded with Walmart marks. The agreement has an initial term of three years from the launch date of April 2014, which will automatically renew for an additional two year term and subsequent one year terms unless either party provides notice to the contrary. The agreement imposes certain obligations on each party, the most significant being service level requirements by Ria and money transfer compliance requirements by Walmart. Any violation of these requirements by Ria could result in an obligation to indemnify Walmart or termination of the contract by Walmart. However, the agreement allows the parties to resolve disputes by mutual agreement without termination of the agreement.

Corporate Services, Eliminations and Other - In addition to operating in our principal operating segments described above, our “Corporate Services, Eliminations and Other” category includes non-operating activity, certain inter-segment eliminations and the cost of providing corporate and other administrative services to the operating segments, including most share-based compensation expense. These services are not directly identifiable with our reportable operating segments.

**OPPORTUNITIES AND CHALLENGES**

Our expansion plans and opportunities are focused on eight primary areas:

- increasing the number of ATMs, and cash deposit terminals in our independent networks;
- increasing transactions processed on our network of owned and operated ATMs and POS devices;
- signing new outsourced ATM and POS terminal management contracts;
- expanding value added services and other products offered by our EFT Processing Segment, including the sale of DCC, acquiring and other prepaid card services to banks and retailers;
- expanding our epay processing network and portfolio of digital content;
- expanding our money transfer services, cross-currency payment products and bill payment network;
- expanding our cash management solutions and foreign currency risk management services; and
- developing our credit and debit card outsourcing business.

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

- the impact of competition by banks and other ATM operators and service providers in our current target markets;
- the demand for our ATM outsourcing services in our current target markets;

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

We consistently evaluate and add prospects to our list of potential ATM outsource customers. However, we cannot predict the increase or decrease in the number of ATMs we manage under outsourcing agreements because this depends largely on the willingness of banks to enter into outsourcing contracts with us. Due to the thorough internal reviews and extensive negotiations conducted by existing and prospective banking customers in choosing outsource vendors, the process of entering into or renewing outsourcing agreements can take several months. The process is further complicated by the legal and regulatory considerations of local countries. These agreements tend to cover large numbers of ATMs, so significant increases and decreases in our pool of managed ATMs could result from the acquisition or termination of one or more of these management contracts. Therefore, the timing of both current and new contract revenues is uncertain and unpredictable.

Software products are an integral part of our product lines, and our investment in research, development, delivery and customer support reflects our ongoing commitment to an expanded customer base.

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

- our ability to maintain and renew existing agreements, and to negotiate new agreements in additional markets with mobile operators, digital content providers, agent financial institutions and retailers;
- our ability to use existing expertise and relationships with mobile operators, digital content providers and retailers to our advantage;
- the continued use of third-party providers such as ourselves to supply electronic processing solutions for existing and additional digital content;
- the development of mobile phone networks in the markets in which we do business and the increase in the number of mobile phone users;
- the overall pace of growth in the prepaid mobile phone and digital content market, including consumer shifts between prepaid and postpaid services;
- our market share of the retail distribution capacity;
- the development of new technologies that may compete with POS distribution of prepaid mobile airtime and other products;
- the level of commission that is paid to the various intermediaries in the electronic payment distribution chain;
- our ability to fully recover monies collected by retailers;
- our ability to add new and differentiated products in addition to those offered by mobile operators;
- our ability to develop and effectively market additional value added services;



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our ability to take advantage of cross-selling opportunities with our EFT Processing and Money Transfer Segments, including providing money transfer services through our distribution network; and the availability of financing for further expansion.

In all of the markets in which we operate, we are experiencing significant competition which will impact the rate at which we may be able to grow organically. Competition among prepaid mobile airtime and digital content distributors results in the increase of commissions paid to retailers and increases in retailer attrition rates. To grow, we must capture market share from other prepaid mobile airtime and digital content distributors, offer a superior product offering and demonstrate the value of a global network. In certain markets in which we operate, many of the factors that may contribute to rapid growth (growth in electronic payment products, expansion of our network of retailers and access to products of mobile operators and other content providers) remain present.

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

- the continued growth in worker migration and employment opportunities;
- the mitigation of economic and political factors that have had an adverse impact on money transfer volumes, such as changes in the economic sectors in which immigrants work and the developments in immigration policies in the countries in which we operate;
- the continuation of the trend of increased use of electronic money transfer and bill payment services among high-income individuals, immigrant workers and the unbanked population in our markets;
- our ability to maintain our agent and correspondent networks;
- our ability to offer our products and services or develop new products and services at competitive prices to drive increases in transactions;
- the development of new technologies that may compete with our money transfer network;
- the expansion of our services in markets where we operate and in new markets;
- our ability to strengthen our brands;
- our ability to fund working capital requirements;
- our ability to recover from agents funds collected from customers and our ability to recover advances made to correspondents;
- our ability to maintain compliance with the regulatory requirements of the jurisdictions in which we operate or plan to operate;
- our ability to take advantage of cross-selling opportunities with the epay Segment, including providing prepaid services through our stores and agents worldwide;
- our ability to leverage our banking and merchant/retailer relationships to expand money transfer corridors to Europe, Asia and Africa, including high growth corridors to Central and Eastern European countries;
- the availability of financing for further expansion;
- the ability to maintain banking relationships necessary for us to service our customers;
- our ability to successfully expand our agent network in Europe using our payment institution licenses under the Payment Services Directive and in the United States; and
- our ability to provide additional value-added products under the XE brand.

For all segments, our continued expansion may involve additional acquisitions that could divert our resources and management time and require integration of new assets with our existing networks and services. Our ability to effectively manage our growth has required us to expand our operating systems and employee base, particularly at the management level, which has added incremental operating costs. An inability to continue to effectively manage expansion could have a material adverse effect on our business, growth, financial condition or results of operations. Inadequate technology and resources would impair our ability to maintain current processing technology and efficiencies, as well as deliver new and innovative services to compete in the marketplace.



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## SEGMENT SUMMARY RESULTS OF OPERATIONS

Revenues and operating income by segment for the three and nine months ended September 30, 2016 and 2015 are summarized in the tables below:

	Revenues for the Three Months Ended September 30,		Year-over-Year Change		Revenues for the Nine Months Ended September 30,		Year-over-Year Change	
	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent
(dollar amounts in thousands)								
EFT Processing	\$152,586	\$118,895	\$33,691	28 %	\$354,282	\$286,650	\$67,632	24 %
epay	167,226	174,547	(7,321)	(4)%	497,945	517,296	(19,351)	(4)%
Money Transfer	204,611	188,232	16,379	9 %	587,664	498,689	88,975	18 %
Total	524,423	481,674	42,749	9 %	1,439,891	1,302,635	137,256	11 %
Corporate services, eliminations and other	(398)	(301)	(97)	32 %	(1,105)	(952)	(153)	16 %
Total	\$524,025	\$481,373	\$42,652	9 %	\$1,438,786	\$1,301,683	\$137,103	11 %
	Operating Income (Expense) for the Three Months Ended September 30,		Year-over-Year Change		Operating Income (Expense) for the Nine Months Ended September 30,		Year-over-Year Change	
(dollar amounts in thousands)	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent
EFT Processing	\$59,438	\$40,316	\$19,122	47 %	\$100,596	\$73,724	\$26,872	36 %
epay	14,795	14,607	188	1 %	46,681	46,360	321	1 %
Money Transfer	25,183	23,750	1,433	6 %	72,578	55,308	17,270	31 %
Total	99,416	78,673	20,743	26 %	219,855	175,392	44,463	25 %
Corporate services, eliminations and other	(8,948)	(8,399)	(549)	7 %	(28,188)	(25,775)	(2,413)	9 %
Total	\$90,468	\$70,274	\$20,194	29 %	\$191,667	\$149,617	\$42,050	28 %

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## Impact of changes in foreign currency exchange rates

Our revenues and local expenses are recorded in the functional currencies of our operating entities and translated into U.S. dollars for financial reporting purposes; therefore, amounts we earn outside the U.S. are negatively impacted by a stronger U.S. dollar and positively impacted by a weaker U.S. dollar. On average, the U.S. dollar was stronger relative to most foreign currencies in the markets where we conduct our business as compared to the same periods of the prior year. Considering the results by country and the associated functional currency, we estimate that our consolidated operating income for the third quarter and nine month period of 2016 were not significantly influenced by the changes in foreign currency exchange rates when compared to the same periods in 2015.

To provide further perspective on the impact of foreign currency exchange rates, the following table shows the changes in values relative to the U.S. dollar of the currencies of the countries in which we have our most significant operations:

Currency (dollars per foreign currency)	Average Translation Rate Three Months Ended September 30,		Increase (Decrease) Percent	Average Translation Rate Nine Months Ended September 30,		Decrease Percent		
	2016	2015		2016	2015			
Australian dollar	\$0.7577	\$0.7251	4	%	\$0.7418	\$0.7628	(3)	%
British pound	\$1.3125	\$1.5487	(15)	%	\$1.3931	\$1.5321	(9)	%
euro	\$1.1156	\$1.1127	—	%	\$1.1162	\$1.1153	—	%
Hungarian forint	\$0.0036	\$0.0036	—	%	\$0.0036	\$0.0036	—	%
Indian rupee	\$0.0149	\$0.0154	(3)	%	\$0.0149	\$0.0158	(6)	%
Malaysian ringgit	\$0.2472	\$0.2474	—	%	\$0.2452	\$0.2658	(8)	%
New Zealand dollar	\$0.7221	\$0.6508	11	%	\$0.6922	\$0.7113	(3)	%
Polish zloty	\$0.2573	\$0.2657	(3)	%	\$0.2563	\$0.2685	(5)	%

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## COMPARISON OF OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

## EFT PROCESSING SEGMENT

The following table presents the results of operations for the three and nine months ended September 30, 2016 and 2015 for our EFT Processing Segment:

(dollar amounts in thousands)	Three Months Ended September 30,		Year-over-Year Change		Nine Months Ended September 30,		Year-over-Year Change	
	2016	2015	Increase Amount	Increase Percent	2016	2015	Increase Amount	Increase Percent
Total revenues	\$152,586	\$118,895	\$33,691	28 %	\$354,282	\$286,650	\$67,632	24 %
Operating expenses:								
Direct operating costs	62,401	51,550	10,851	21 %	165,520	135,754	29,766	22 %
Salaries and benefits	12,954	11,862	1,092	9 %	37,601	34,466	3,135	9 %
Selling, general and administrative	7,642	7,052	590	8 %	22,154	19,432	2,722	14 %
Depreciation and amortization	10,151	8,115	2,036	25 %	28,411	23,274	5,137	22 %
Total operating expenses	93,148	78,579	14,569	19 %	253,686	212,926	40,760	19 %
Operating income	\$59,438	\$40,316	\$19,122	47 %	\$100,596	\$73,724	\$26,872	36 %
Transactions processed (millions)	488	401	87	22 %	1,370	1,130	240	21 %
ATMs as of September 30,	29,276	21,128	8,148	39 %	29,276	21,128	8,148	39 %
Average ATMs	27,350	21,781	5,569	26 %	25,802	21,348	4,454	21 %

## Revenues

EFT Processing Segment total revenues for the three and nine months ended September 30, 2016 were \$152.6 million and \$354.3 million, respectively, an increase of \$33.7 million or 28% and \$67.6 million or 24% as compared to the same periods in 2015. The increases in total revenues for the three and nine months ended September 30, 2016 were primarily due to an increase in the number of ATMs under management, primarily in Europe and India, partially offset by the impact of the U.S. dollar strengthening against key foreign currencies. Foreign currency movements reduced total revenues by approximately \$0.6 million and \$5.0 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. Specifically, the increase in the number of ATMs contributed to increases in the number of transactions processed, including dynamic currency conversion ("DCC") transactions, primarily in Europe.

Our EFT Processing business has also been affected by the ongoing economic crisis in Greece and the related capital controls implemented by the Greek government. In mid-2015, the Greek government implemented restrictions on the transfer of funds and cash withdrawals, which shifted the consumer behavior towards POS card payments. As result, there was an increase in transactions processed on our network of POS devices in Greece, which contributed to an increase in POS revenues. For the nine months ended September 30, 2016, revenues were also higher than the same period in the prior year as a result of a higher volume of sales of POS devices in Greece.

Average monthly revenues per ATM were \$1,860 and \$1,526 for the three and nine months ended September 30, 2016, respectively, compared to \$1,820 and \$1,492 for the three and nine months ended September 30, 2015, respectively. The increases were primarily due to an increase in ATMs under management in Europe and DCC transactions processed, partly offset by the strengthening of the U.S. dollar against key foreign currencies. Revenues per transaction were \$0.31 for the third quarter and \$0.26 for the first nine months of 2016 compared to \$0.30 for the third quarter and \$0.25 for the first nine months of 2015. The increases were primarily the result of revenue growth from DCC transactions, which earns higher revenues per transaction than other ATM or card based services, partially offset by ATM and transaction growth in India where we earn lower revenues per transaction along with the impact of the U.S. dollar strengthening against key foreign currencies.



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## Direct operating costs

EFT Processing Segment direct operating costs were \$62.4 million and \$165.5 million for the three and nine months ended September 30, 2016, respectively, an increase of \$10.9 million or 21% and \$29.8 million or 22% as compared to the same periods in 2015. Direct operating costs in the EFT Processing Segment consist primarily of site rental fees, cash delivery costs, cash supply costs, maintenance, insurance, telecommunications, data center operations-related personnel, as well as the processing centers' facility-related costs and other processing center-related expenses and commissions paid to retail merchants, banks and card processors involved with POS DCC transactions. The increases in direct operating costs for the three and nine months ended September 30, 2016 were primarily due to an increase in the number of ATMs under management, partly offset by the impact of the U.S. dollar strengthening against key foreign currencies.

## Gross profit

Gross profit, which is calculated as revenues less direct operating costs, was \$90.2 million and \$188.8 million for the three and nine months ended September 30, 2016, respectively, compared to \$67.3 million and \$150.9 million for the three and nine months ended September 30, 2015, respectively. The increases in gross profits were primarily due to the growth in revenues from the increases in ATMs under management and DCC transactions processed. Gross profit as a percentage of revenues ("gross margin") were 59.1% and 53.3% for the three and nine months ended September 30, 2016, respectively, compared to 56.6% and 52.6% for the three and nine months ended September 30, 2015, respectively. The increases in gross profits as a percentage of revenue were primarily due to the increase in ATMs under management and DCC transactions processed, which earn higher revenues per transaction than other ATM or card based services. These increases were partly offset by increased operating costs due to the expansion of our ATM network, which includes fixed costs for our independent ATMs and increased site rental cost as we negotiate new locations and contracts, along with growth in the India market where we earn lower revenue per transaction.

## Salaries and benefits

Salaries and benefits increased \$1.1 million or 9%, and \$3.1 million or 9% for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. These increases in salaries and benefits were primarily attributable to additional headcount to support an increase in the number of ATMs and POS devices under management. As a percentage of revenues, these costs were 8.5% for the third quarter and 10.6% for the first nine months of 2016, compared to 10.0% for third quarter and 12.0% for the first nine months of 2015. The decreases were primarily due to the growth in revenues earned from DCC and other value added service transactions on our ATMs under management, which require minimal incremental support costs.

## Selling, general and administrative

Selling, general and administrative expenses for the three and nine months ended September 30, 2016 were \$7.6 million and \$22.2 million, respectively, an increase of \$0.6 million or 8% and \$2.7 million or 14% as compared to the same periods in 2015. The increases were primarily due to the additional support costs as a result of the increase in the number of ATMs under management. As a percentage of revenues, selling, general and administrative expenses were 5.0% for the third quarter and 6.3% for the first nine months of 2016, compared to 5.9% for third quarter and 6.8% for the first nine months of 2015.

## Depreciation and amortization

Depreciation and amortization expense increased \$2.0 million and \$5.1 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The increases were primarily attributable to the deployment of additional ATMs under management, including more expensive cash recycling ATMs, and software assets. As a percentage of revenues, depreciation and amortization expense was essentially flat at 6.7% for the third quarter and 8.0% for the first nine months of 2016, compared to 6.8% and 8.1% for the same periods of 2015.

## Operating income

EFT Processing Segment operating income for the three and nine months ended September 30, 2016 was \$59.4 million and \$100.6 million, respectively, an increase of \$19.1 million or 47% and \$26.9 million or 36% as compared to the same periods of 2015. EFT Processing Segment operating income for the three and nine months ended September 30, 2016 increased primarily from higher operating revenues due to the additional number of ATMs under management and growth in revenues earned from DCC and other value added service transactions.

Operating income as a percentage of revenues (“operating margin”) was 39.0% for the third quarter and 28.4% for the first nine months of 2016 compared to 33.9% for the third quarter and 25.7% for the first nine months of 2015. The increases in operating margins were primarily attributable to higher operating revenues being partially offset by variable expenses incurred to support the increased revenues and additional ATMs under management. Operating income per transaction was \$0.12 and \$0.10 for the third quarter of 2016 and 2015, respectively, and \$0.07 for both the nine months ended September 30, 2016 and 2015.

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## EPAY SEGMENT

The following table presents the results of operations for the three and nine months ended September 30, 2016 and 2015 for our epay Segment:

(dollar amounts in thousands)	Three Months Ended September 30,		Year-over-Year Change		Nine Months Ended September 30,		Year-over-Year Change	
	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent	2016	2015	Increase (Decrease) Amount	Increase (Decrease) Percent
Total revenues	\$ 167,226	\$ 174,547	\$(7,321)	(4)%	\$ 497,945	\$ 517,296	\$(19,351)	(4)%
Operating expenses:								
Direct operating costs	128,212	133,124	(4,912)	(4)%	379,423	396,860	(17,437)	(4)%
Salaries and benefits	13,352	12,745	607	5%	38,052	37,172	880	2%
Selling, general and administrative	8,133	11,411	(3,278)	(29)%	25,291	28,439	(3,148)	(11)%
Depreciation and amortization	2,734	2,660	74	3%	8,498	8,465	33	—%
Total operating expenses	152,431	159,940	(7,509)	(5)%	451,264	470,936	(19,672)	(4)%
Operating income	\$ 14,795	\$ 14,607	\$ 188	1%	\$ 46,681	\$ 46,360	\$ 321	1%
Transactions processed (millions)	314	337	(23)	(7)%	949	993	(44)	(4)%

## Revenues

epay Segment total revenues for the three and nine months ended September 30, 2016 were \$167.2 million and \$497.9 million, respectively, a decrease of \$7.3 million or 4% and \$19.4 million or 4% as compared to the same periods in 2015. The decreases in total revenues for the three and nine months ended September 30, 2016 were primarily due to the impact of the U.S. dollar strengthening against key foreign currencies, and a decrease in prepaid mobile transactions processed in the U.S. and U.K. due to competitive pressures on prepaid mobile carriers. Foreign currency movements reduced total revenues by approximately \$1.4 million and \$10.8 million for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The decreases were partially offset by the transaction growth of non-mobile products processed in Germany, U.K. and Australia. For the three and nine months ended September 30, 2016, the decreased revenues were also the result of high promotional activities for non-mobile transactions in a particular market during the prior periods which did not recur in current periods; however, this decrease was partially offset by an unexpected high volume of non-mobile transactions in another emerging market.

Revenues per transaction were \$0.53 for the third quarter and \$0.52 for the first nine months of 2016 compared to \$0.52 for the third quarter and \$0.52 for the first nine months of 2015. The increase in revenues per transaction for the third quarter was driven by the increase in the number of non-mobile transactions processed, for which we generally earn higher revenues per transaction than mobile transactions, partially offset by the impact of the U.S. dollar strengthening against key foreign currencies and a decline in low value mobile transactions in India.

## Direct operating costs

epay Segment direct operating costs were \$128.2 million and \$379.4 million for the three and nine months ended September 30, 2016, respectively, a decrease of \$4.9 million or 4% and \$17.4 million or 4% as compared to the same periods in 2015. Direct operating costs in our epay Segment include the commissions we pay to retail merchants for the distribution and sale of prepaid mobile airtime and other prepaid products, expenses required to operate POS terminals and the cost of vouchers sold and physical gifts fulfilled. The decreases in direct operating costs for the three and nine months ended September 30, 2016 were primarily due to the net impact of the U.S. dollar strengthening against key foreign currencies and the decrease in prepaid mobile transactions processed in the U.S. and U.K. The decreases were partly offset by additional cost to support the transaction growth of our non-mobile products.

## Gross profit

Gross profit was \$39.0 million and \$118.5 million for the three and nine months ended September 30, 2016, respectively, as compared to \$41.4 million and \$120.4 million for the three and nine months ended September 30, 2015, respectively. The decreases in gross profit were due to the net impact of the U.S. dollar strengthening against key foreign currencies and the decrease in prepaid mobile transactions processed in the U.S. and U.K.

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During the three and nine months ended September 30, 2016, gross margins were essentially flat compared to the same periods in the prior year. Gross margins were 23.3% and 23.8% for the three and nine months ended September 30, 2016, respectively, compared to 23.7% and 23.3% for the same periods in 2015.

Salaries and benefits

Salaries and benefits expense increased slightly for the three and nine months ended September 30, 2016 compared to the same periods in 2015. This was primarily due to the increase in salaries, benefits and bonus expense, which was mainly driven by higher headcount in an effort to grow the segment. As a percentage of revenues, salaries and benefits increased to 8.0% and 7.6% for the three and nine months ended September 30, 2016, respectively, compared to 7.3% and 7.2% for the same periods in 2015, primarily due to headcount growth exceeding transaction growth.

Selling, general and administrative

Selling, general and administrative expenses for the three and nine months ended September 30, 2016 were \$8.1 million and \$25.3 million, respectively, a decrease of 29% and 11% as compared to the same periods in 2015. Selling, general and administrative expenses for the three and nine months ended September 30, 2016 decreased due to management of cost and due to a deferred cost write-down that was incurred in the third quarter of 2015 which did not recur in 2016. As a percentage of revenues, selling, general and administrative expenses were 4.9% and 5.1% for the three and nine months ended September 30, 2016, respectively, compared to 6.5% and 5.5% for the same periods in 2015.

Depreciation and amortization

Depreciation and amortization expense primarily represents depreciation of POS terminals we place in retail stores and the amortization of acquired intangible assets. Depreciation and amortization expenses were flat for the three and nine months ended September 30, 2016 compared to the same periods in 2015. As a percentage of revenues, depreciation and amortization expenses was 2% for the three and nine months ended September 30, 2016 and 2015.

Operating income

epay Segment operating income for the three and nine months ended September 30, 2016 was \$14.8 million and \$46.7 million, respectively, an increase of \$0.2 million and \$0.3 million as compared to the same periods in 2015. epay Segment operating income for the three and nine months ended September 30, 2016 was essentially flat when compared to 2015 as the result of lower revenues largely offset by lower support costs.

Operating margin increased to 8.8% and 9.4% for the three and nine months ended September 30, 2016, respectively, from 8.4% and 9.0% for the same periods in 2015. Operating income per transaction was \$0.05 for both the three and nine months ended September 30, 2016, compared to \$0.04 and \$0.05 for the same periods in 2015. Revenues per transaction remained constant for the nine months ended September 30, 2016 and increased slightly for the third quarter of 2016 compared to the same periods in 2015 despite the decrease in the number of transactions due to the increase in the number of non-mobile transactions processed, for which we generally earn higher revenues per transaction than mobile transactions.

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## MONEY TRANSFER SEGMENT

The following table presents the results of operations for the three and nine months ended September 30, 2016 and 2015 for the Money Transfer Segment:

(dollar amounts in thousands)	Three Months Ended September 30,		Year-over-Year Change		Nine Months Ended September 30,		Year-over-Year Change	
	2016	2015	Increase Amount	Increase Percent	2016	2015	Increase Amount	Increase Percent
Total revenues	\$204,611	\$188,232	\$16,379	9 %	\$587,664	\$498,689	\$88,975	18 %
Operating expenses:								
Direct operating costs	109,944	97,928	12,016	12 %	309,706	260,008	49,698	19 %
Salaries and benefits	38,365	36,187	2,178	6 %	114,582	100,581	14,001	14 %
Selling, general and administrative	23,924	23,356	568	2 %	68,930	63,089	5,841	9 %
Depreciation and amortization	7,195	7,011	184	3 %	21,868	19,703	2,165	11 %
Total operating expenses	179,428	164,482	14,946	9 %	515,086	443,381	71,705	16 %
Operating income	\$25,183	\$23,750	\$1,433	6 %	\$72,578	\$55,308	\$17,270	31 %
Transactions processed (millions)	21.3	19.0	2.3	12 %	60.5	49.4	11.1	22 %

## Revenues

Money Transfer Segment total revenues for the three and nine months ended September 30, 2016 were \$204.6 million and \$587.7 million, respectively, an increase of \$16.4 million or 9% and \$89.0 million or 18% as compared to the same periods in 2015. The increases in total revenues for the three and nine months ended September 30, 2016 were primarily due to increases in the number of money transfers processed, driven by growth in our U.S. and foreign agent and correspondent payout networks. Our domestic Walmart-2-Walmart money transfer service and organic growth accounted for a significant portion of the growth during these periods. The acquisition of IME (M) Sdn Bhd ("IME") and XE Corporation ("XE") completed during 2015 also contributed to the increase in total revenues for the nine months ended September 30, 2016. The increases were partly offset by the U.S. dollar strengthening against key foreign currencies.

Revenues per transaction decreased to \$9.61 and \$9.71 for the three and nine months ended September 30, 2016, respectively, compared to \$9.91 and \$10.09 for the three and nine months ended September 30, 2015, respectively. The decreases were primarily due to the impact of the U.S. dollar strengthening against key foreign currencies, the increase in volume from our Walmart money transfer product, which earns lower revenues per transaction than other money transfer services and a third quarter 2015 benefit from increased foreign currency exchange margins related to a market dislocation on a currency pair in one of our markets which did not recur in 2016. Partly offsetting the decreases in revenues per transaction was the impact of the HiFX transactions which earn higher revenues per transaction than other money transfer services.

## Direct operating costs

Money Transfer Segment direct operating costs were \$109.9 million and \$309.7 million for the three and nine months ended September 30, 2016, respectively, an increase of \$12.0 million or 12% and \$49.7 million or 19% as compared to the same periods in 2015. Direct operating costs in the Money Transfer Segment primarily consist of commissions paid to agents who originate money transfers on our behalf and correspondent agents who disburse funds to the customers' destination beneficiaries, together with less significant costs, such as bank depository fees. The increases in direct operating costs for the three and nine months of 2016 were primarily due to growth in the number of money transfer transactions processed in both the U.S. and foreign markets and the impact of the acquisition of IME.

## Gross profit

Gross profits were \$94.7 million and \$278.0 million for the three and nine months ended September 30, 2016, respectively, as compared to \$90.3 million and \$238.7 million for the three and nine months ended September 30, 2015, respectively. The increases in gross profits were primarily due to growth in the number of money transfer transactions processed in both the U.S. and foreign markets. The impact of our acquisitions of IME and XE and the activity in our HiFX business due to the Brexit vote, also contributed to the increase in gross profits for the nine

months ended September 30, 2016.

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During the three and nine months ended September 30, 2016, gross margins decreased to 46.3% and 47.3% for the three and nine months ended September 30, 2016, respectively, compared to 48.0% and 47.9% for the three and nine months ended September 30, 2015, respectively. The decrease is primarily due to the growth of our Walmart money transfer product in the U.S., which earns a lower gross profit per transaction than other money transfer services.

**Salaries and benefits**

Salaries and benefits increased \$2.2 million or 6% and \$14.0 million or 14% for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The increases in salaries and benefits were primarily due to the expansion of our operations in foreign markets. The acquisitions of IME and XE also contributed to the increase in salaries and benefits for the nine months ended September 30, 2016. As a percentage of revenues, salaries and benefits improved to 18.8% for the third quarter and 19.5% for the first nine months of 2016 from 19.2% for the third quarter and 20.2% for the first nine months of 2015. The decrease is primarily due to the increases in the number of money transfers processed, and the transaction growth exceeding headcount growth.

**Selling, general, and administrative**

Selling, general and administrative expenses for the three and nine months ended September 30, 2016 were \$23.9 million and \$68.9 million, respectively, an increase of \$0.6 million or 2% and \$5.8 million or 9% as compared to the same periods in 2015. The increases were primarily due to expenses incurred to support the expansion of our money transfer products in both the U.S. and foreign markets. The acquisitions of IME and XE also contributed to the increase in selling, general, and administrative expenses for the nine months ended September 30, 2016.

As a percentage of revenues, selling, general and administrative expenses decreased to 11.7% for both the three and nine months ended September 30, 2016, compared to 12.4% and 12.7% for the same periods of 2015. The decreases were primarily due to increases in the number of money transfers processed, which did not require similar increases in support costs.

**Depreciation and amortization**

Depreciation and amortization primarily represents amortization of acquired intangible assets and depreciation of money transfer terminals, computers and software, leasehold improvements and office equipment. Depreciation and amortization expense increased 3% and 11% for the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The increase for the nine months ended September 30, 2016 was primarily due to the amortization of intangible assets related to the acquisitions of IME and XE and investments made to support the growth in the business. Partly offsetting the increase was the reduction in expenses associated with certain intangible assets that became fully amortized in the first quarter of 2015.

As a percentage of revenues, depreciation and amortization expense was 3.5% for the third quarter and 3.7% for the first nine months of 2016 as compared to 3.7% and 4.0% for the same periods of 2015. The decreases were primarily due to certain intangible assets becoming fully amortized and the effect of revenues earned from our Walmart money transfer product, which requires less capital investment than other money transfer products.

**Operating income**

Money Transfer Segment operating income for the three and nine months ended September 30, 2016 was \$25.2 million and \$72.6 million, respectively, an increase of \$1.4 million or 6% and \$17.3 million or 31% as compared to the same periods of 2015. Money Transfer Segment operating income for the three and nine months ended September 30, 2016 increased primarily due to the growth in the number of money transfers processed. The impact of our acquisitions of IME and XE also contributed to the increase in gross profits for the nine months ended September 30, 2016. The increases were partly offset by the additional salaries and benefits and other costs incurred to support the growth in the business.

As a percentage of revenues, operating margins were 12.3% and 12.4% for the three and nine months ended September 30, 2016, respectively, compared to 12.6% and 11.1% for same periods of 2015. Operating income per transaction was \$1.18 and \$1.20 for the three and nine months ended September 30, 2016, respectively, compared to \$1.25 and \$1.12 for the same periods in 2015. Operating margin and operating income per transaction for the third quarter of 2016 decreased primarily due to the third quarter 2015 results including a benefit of increased foreign currency exchange margins related to a market dislocation on a currency pair that did not recur in 2016 and additional salaries and benefits and other costs incurred to support the growth in the business. Operating margin and operating

income per transaction improved for the nine months ended September 30,