Under Armour, Inc.
Form 10-Q
May 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 001-33202

UNDER ARMOUR, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1990078**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1020 Hull Street Baltimore, Maryland 21230	**(410) 454-6428**
(Address of principal executive offices) (Zip Code)	**(Registrant s telephone number, including area code)**

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

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 þ 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	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 þ

As of April 30, 2012, there were 41,032,837 shares of Class A Common Stock and 11,100,000 shares of Class B Convertible Common Stock outstanding.

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UNDER ARMOUR, INC.

MARCH 31, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Balance Sheets

(In thousands, except share data)

	December 31, March 31, 2012	December 31, December 31, 2011	December 31, March 31, 2011
Assets			
Current assets			
Cash and cash equivalents	$ 107,052	$ 175,384	$ 110,844
Accounts receivable, net	196,411	134,043	163,385
Inventories	324,354	324,409	248,614
Prepaid expenses and other current assets	47,121	39,643	19,298
Deferred income taxes	19,164	16,184	15,963
Total current assets	694,102	689,663	558,104
Property and equipment, net	158,482	159,135	80,298
Intangible assets, net	4,648	5,535	3,982
Deferred income taxes	15,461	15,885	21,041
Other long term assets	47,544	48,992	28,285
Total assets	$ 920,237	$ 919,210	$ 691,710
Liabilities and Stockholders Equity			
Current liabilities			
Accounts payable	$ 95,844	$ 100,527	$ 88,678
Accrued expenses	40,970	69,285	38,473
Current maturities of long term debt	43,330	6,882	5,984
Other current liabilities	2,550	6,913	2,921
Total current liabilities	182,694	183,607	136,056
Long term debt, net of current maturities	32,451	70,842	7,660
Other long term liabilities	31,004	28,329	22,819
Total liabilities	246,149	282,778	166,535
Commitments and contingencies (see Note 5)			
Stockholders equity			
Class A Common Stock, $0.0003 1/3 par value; 100,000,000 shares authorized as of March 31, 2012, December 31, 2011 and March 31, 2011; 41,001,001 shares issued and outstanding as of March 31, 2012, 40,496,126 shares issued and outstanding as of December 31, 2011 and 39,498,297 shares issued and outstanding as of March 31, 2011	14	13	13
Class B Convertible Common Stock, $0.0003 1/3 par value; 11,100,000 shares authorized, issued and outstanding as of March 31, 2012, 11,250,000 shares authorized, issued and outstanding as of December 31, 2011 and 12,187,500 shares authorized, issued and outstanding as of March 31, 2011	4	4	4

Additional paid-in capital	291,660	268,223	240,626
Retained earnings	380,248	366,164	281,825
Accumulated other comprehensive income	2,162	2,028	2,707
Total stockholders equity	674,088	636,432	525,175
Total liabilities and stockholders equity	$ 920,237	$ 919,210	$ 691,710

See accompanying notes.

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Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Statements of Income

(In thousands, except per share amounts)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net revenues	$ 384,389	$ 312,699
Cost of goods sold	209,185	167,648
Gross profit	175,204	145,051
Selling, general and administrative expenses	150,801	123,909
Income from operations	24,403	21,142
Interest expense, net	(1,355)	(579)
Other income (expense), net	82	(510)
Income before income taxes	23,130	20,053
Provision for income taxes	8,469	7,914
Net income	$ 14,661	$ 12,139
Net income available per common share		
Basic	$ 0.28	$ 0.24
Diluted	$ 0.28	$ 0.23
Weighted average common shares outstanding		
Basic	51,923	51,444
Diluted	52,853	52,386

See accompanying notes.

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Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income

(In thousands)

	Three Months Ended March 31,	
	2012	**2011**
Net income	$ 14,661	$ 12,139
Other comprehensive income:		
Foreign currency translation adjustment	134	666
Total other comprehensive income	134	666
Comprehensive income	$ 14,795	$ 12,805

See accompanying notes.

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Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash flows from operating activities		
Net income	$ 14,661	$ 12,139
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	10,591	8,613
Unrealized foreign currency exchange rate gains	(1,686)	(1,922)
Stock-based compensation	6,418	3,315
Loss on disposal of property and equipment	390	2
Deferred income taxes	(1,837)	63
Changes in reserves and allowances	(1,917)	(2,766)
Changes in operating assets and liabilities:		
Accounts receivable	(60,391)	(56,566)
Inventories	1,552	(33,379)
Prepaid expenses and other assets	4,538	(1,860)
Accounts payable	(6,052)	3,563
Accrued expenses and other liabilities	(26,041)	(15,681)
Income taxes payable and receivable	(13,274)	(1,018)
Net cash used in operating activities	(73,048)	(85,497)
Cash flows from investing activities		
Purchase of property and equipment	(8,839)	(10,846)
Purchase of other long term assets		(1,153)
Purchase of long term investment		(3,852)
Change in restricted cash	(198)	
Net cash used in investing activities	(9,037)	(15,851)
Cash flows from financing activities		
Payments on long term debt	(1,943)	(2,298)
Excess tax benefits from stock-based compensation arrangements	9,500	5,337
Payments of deferred financing costs		(1,562)
Proceeds from exercise of stock options and other stock issuances	6,868	6,826
Net cash provided by financing activities	14,425	8,303
Effect of exchange rate changes on cash and cash equivalents	(672)	19
Net decrease in cash and cash equivalents	(68,332)	(93,026)
Cash and cash equivalents		
Beginning of period	175,384	203,870
End of period	$ 107,052	$ 110,844

See accompanying notes.

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Under Armour, Inc. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear and accessories. These products are sold worldwide and worn by athletes at all levels, from youth to professional on playing fields around the globe, as well as by consumers with active lifestyles.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the Company). Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) and accounting principles generally accepted in the United States of America for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. All intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2011 is derived from the audited financial statements included in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2011 (the 2011 Form 10-K), which should be read in conjunction with these consolidated financial statements. The results for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012 or any other portions thereof.

Concentration of Credit Risk

Financial instruments that subject the Company to a significant concentration of credit risk consist primarily of accounts receivable. The majority of the Company s accounts receivable are due from large sporting goods retailers. Credit is extended based on an evaluation of the customer s financial condition, and generally collateral is not required. The most significant customers that accounted for a large portion of net revenues and accounts receivable were as follows:

	Customer A	Customer B	Customer C
Net revenues			
Three months ended March 31, 2012	18.6%	7.3%	7.2%
Three months ended March 31, 2011	20.2%	8.9%	6.8%
Accounts receivable			
As of March 31, 2012	26.0%	10.1%	8.1%
As of December 31, 2011	25.4%	8.6%	5.5%
As of March 31, 2011	28.5%	12.4%	7.3%

Allowance for Doubtful Accounts

As of March 31, 2012, December 31, 2011 and March 31, 2011, the allowance for doubtful accounts was $3.8 million, $4.1 million and $3.8 million, respectively.

Shipping and Handling Costs

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company includes the majority of outbound handling costs as a component of selling, general and administrative expenses. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate the Company s distribution facilities. These costs, included within selling, general and administrative expenses, were $7.4 million and $4.8 million for the three months ended March 31, 2012 and 2011, respectively. The Company includes outbound freight costs associated with shipping goods to customers as a component of cost of goods sold.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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Recently Adopted Accounting Standards

In June 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update which eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity. It requires an entity to present total comprehensive income, which includes the components of net income and the components of other comprehensive income, either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for financial statements issued for fiscal years, and interim periods within those years, beginning after December 15, 2011. In accordance with this guidance, the Company has presented two separate but consecutive statements which include the components of net income and other comprehensive income.

In May 2011, the FASB issued an Accounting Standards Update which clarifies requirements for how to measure fair value and for disclosing information about fair value measurements common to accounting principles generally accepted in the United States of America and International Financial Reporting Standards. This guidance is effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this guidance did not have a material impact on its consolidated financial statements.

3. Inventories

Inventories consisted of the following:

(In thousands)	December 31, March 31, 2012	December 31, December 31, 2011	December 31, March 31, 2011
Finished goods	$ 323,724	$ 323,606	$ 247,919
Raw materials	630	803	683
Work-in-process			12
Total inventories	$ 324,354	$ 324,409	$ 248,614

4. Credit Facility and Long Term Debt

Credit Facility

The Company has a credit facility with certain lending institutions. The credit facility has a term of four years through March 2015 and provides for a committed revolving credit line of up to $300.0 million, in addition to a $25.0 million term loan facility. The commitment amount under the revolving credit facility may be increased by an additional $50.0 million, subject to certain conditions and approvals as set forth in the credit agreement. No balance was outstanding under the revolving credit facility during the three months ended March 31, 2012 or 2011, respectively.

The credit facility may be used for working capital and general corporate purposes and is collateralized by substantially all of the assets of the Company and certain of its domestic subsidiaries (other than trademarks and the land, buildings and other assets comprising the Company s corporate headquarters) and by a pledge of 65% of the equity interests of certain of the Company s foreign subsidiaries. Up to $5.0 million of the facility may be used to support letters of credit, of which none were outstanding as of March 31, 2012 and 2011. The Company is required to maintain a certain leverage ratio and interest coverage ratio as set forth in the credit agreement. As of March 31, 2012, the Company was in compliance with these ratios. The credit agreement also provides the lenders with the ability to reduce the borrowing base, even if the Company is in compliance with all conditions of the credit agreement, upon a material adverse change to the business, properties, assets, financial condition or results of operations of the Company. The credit agreement contains a number of restrictions that limit the Company s ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge its assets as security, guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change its line of business. In addition, the credit agreement includes a cross default provision whereby an event of default under other debt obligations, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit facility bear interest based on the daily balance outstanding at LIBOR (with no rate floor) plus an applicable margin (varying from 1.25% to 1.75%) or, in certain cases a base rate (based on a certain lending institution s Prime Rate or as otherwise specified in the credit agreement, with no rate floor) plus an applicable margin (varying from 0.25% to 0.75%). The credit facility also carries a commitment fee equal to the unused borrowings multiplied by an applicable margin (varying from 0.25% to 0.35%). The applicable margins are calculated quarterly and vary based on the Company s leverage ratio as set forth in the credit agreement. As of March 31, 2012, the $25.0 million term loan was outstanding. The interest rate on the term loan was 1.7% during the three months ended March 31, 2012. The maturity date of the term loan is March 2015, which is the end of the credit facility term.

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Long Term Debt

The Company has long term debt agreements with various lenders to finance the acquisition or lease of qualifying capital investments. Loans under these agreements are collateralized by a first lien on the related assets acquired. As these agreements are not committed facilities, each advance is subject to approval by the lenders. Additionally, these agreements include a cross default provision whereby an event of default under other debt obligations, including the Company s credit facility, will be considered an event of default under these agreements. These agreements require a prepayment fee if the Company pays outstanding amounts ahead of the scheduled terms. The terms of the credit facility limit the total amount of additional financing under these agreements to $40.0 million, of which $21.5 million was available for additional financing as of March 31, 2012. At March 31, 2012, December 31, 2011 and March 31, 2011, the outstanding principal balance under these agreements was $12.8 million, $14.5 million and $13.6 million, respectively. Currently, advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rates on outstanding borrowings were 3.9% and 4.0% for the three months ended March 31, 2012 and 2011, respectively.

The Company monitors the financial health and stability of its lenders under the revolving credit and long term debt facilities, however during any period of significant instability in the credit markets lenders could be negatively impacted in their ability to perform under these facilities.

In July 2011, in connection with the Company s acquisition of its corporate headquarters, the Company assumed a $38.6 million nonrecourse loan secured by a mortgage on the acquired property. The assumed loan had an original term of approximately ten years with a scheduled maturity date of March 1, 2013. The loan includes a balloon payment of $37.3 million due at maturity, and may not be prepaid prior to December 2012. The loan has an interest rate of 6.73%. As of March 31, 2012, the outstanding balance on the loan was $38.0 million. In addition, in connection with this loan, the Company was required to set aside amounts in reserve and cash collateral accounts. As of March 31, 2012 and December 31, 2011, restricted cash balances were $5.2 million and $5.0 million, respectively.

Interest expense was $1.4 million and $0.6 million for the three months ended March 31, 2012 and 2011, respectively. Interest expense includes the amortization of deferred financing costs and interest expense under the credit and long term debt facilities, as well as the assumed loan discussed above.

5. Commitments and Contingencies

There were no significant changes to the contractual obligations reported in the 2011 Form 10-K other than those which occur in the normal course of business.

6. Fair Value Measurements

Fair value is defined as 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 (an exit price). The fair value accounting guidance outlines a valuation framework, creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures, and prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial assets and (liabilities) measured at fair value as of March 31, 2012 are set forth in the table below:

(In thousands)	**Level 1**	**Level 2**	**Level 3**
Derivative foreign currency forward contracts (refer to Note 8)		(110)	
TOLI policies held by the Rabbi Trust		4,227	
Deferred Compensation Plan obligations		(3,696)	

Fair values of the financial assets and liabilities listed above are determined using inputs that use as their basis readily observable market data that are actively quoted and are validated through external sources, including third-party pricing services and brokers. The foreign currency forward contracts represent gains and losses on derivative contracts, which is the net difference between the U.S. dollar value to be received or paid at the contracts settlement date and the U.S. dollar value of the foreign currency to be sold or purchased at the current forward exchange rate. The fair value of the trust owned life

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insurance (TOLI) policies held by the Rabbi Trust is based on the cash-surrender value of the life insurance policies, which are invested primarily in mutual funds and a separately managed fixed income fund. These investments are in the same funds and purchased in substantially the same amounts as the selected investments of participants in the Under Armour, Inc. Deferred Compensation Plan (the Deferred Compensation Plan), which represent the underlying liabilities to participants in the Deferred Compensation Plan. Liabilities under the Deferred Compensation Plan are recorded at amounts due to participants, based on the fair value of participants selected investments.

The nonrecourse loan that the Company assumed in connection with the acquisition of its corporate headquarters had a carrying value of $38.0 million and $38.2 million as of March 31, 2012 and December 31, 2011, respectively. The fair value of the nonrecourse loan was $39.0 million and $39.2 million as of March 31, 2012 and December 31, 2011, respectively. The carrying value of the Company s remaining long term debt approximated its fair value as of March 31, 2012 and December 31, 2011. The fair value of the Company s long term debt was estimated based upon quoted prices for similar instruments (Level 2 input).

7. Stock-Based Compensation

In February 2012, 0.4 million performance-based restricted stock units were awarded to certain officers and key employees under the 2005 Plan. The performance-based restricted stock units have vesting that is tied to the achievement of a certain combined annual operating income target for 2013 and 2014. Upon the achievement of the combined operating income target, 50% of the restricted stock units will vest on February 15, 2015 and the remaining 50% will vest on February 15, 2016. If certain lower levels of combined operating income for 2013 and 2014 are achieved, fewer or no restricted stock units will vest at that time and one year later, and the remaining restricted stock units will be forfeited. As of March 31, 2012, the Company had not begun recording stock-based compensation expense for these performance-based restricted stock units as the Company determined the achievement of the combined operating income targets was not probable. The Company will assess the probability of the achievement of the operating income targets at the end of each reporting period. If it becomes probable that the performance targets related to these performance-based restricted stock units will be achieved, a cumulative adjustment will be recorded as if ratable stock-based compensation expense had been recorded since the grant date. Additional stock based compensation of up to $1.1 million would have been recorded through March 31, 2012 for these performance-based restricted stock units had the achievement of these operating income targets been deemed probable.

During 2011, the Company granted restricted stock units with vesting tied to the achievement of certain combined annual operating income targets for 2012 and 2013. As of March 31, 2012, the Company determined that the achievement of certain operating income targets for 2012 and 2013 were deemed probable. As a result, the Company began recording compensation expense for a portion of the performance-based restricted stock units awarded in 2011 resulting in a cumulative adjustment of $2.4 million. Additional stock based compensation of up to $4.9 million would have been recorded through March 31, 2012 for these performance-based restricted stock units had the full achievement of these operating income targets been deemed probable.

8. Foreign Currency Risk Management and Derivatives

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions generated by its international subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by intercompany transactions. From time to time, the Company may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on intercompany transactions and projected inventory purchases for its European and Canadian subsidiaries. In addition, the Company may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on Pound Sterling denominated balance sheet items.

As of March 31, 2012, the notional value of the Company s outstanding foreign currency forward contract used to mitigate the foreign currency exchange rate fluctuations on its Canadian subsidiary s intercompany transactions was $27.8 million with a contract maturity of 1 month. As of March 31, 2012, the notional value of the Company s outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on its European subsidiary s intercompany transactions was $49.4 million with contract maturities of 1 month. As of March 31, 2012, the notional value of the Company s outstanding foreign currency forward contract used to mitigate the foreign currency exchange rate fluctuations on Pounds Sterling denominated balance sheet items was 9.3 million, or $12.5 million, with a contract maturity of 1 month. The foreign currency forward contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in earnings. The fair values of the Company s foreign currency forward contracts were liabilities of $0.1 million, $0.7 million and $0.5 million as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively, and were included in accrued expenses on the consolidated balance sheets. Refer to Note 6 for a discussion of the fair value measurements. Included in other income (expense), net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency forward contracts:

(In thousands)	**Three Months Ended March 31, 2012**	**2011**
Unrealized foreign currency exchange rate gains	$ 1,686	$ 1,922
Realized foreign currency exchange rate gains	782	455
Unrealized derivative gains	554	15
Realized derivative losses	(2,940)	(2,902)

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The Company enters into foreign currency forward contracts with major financial institutions with investment grade credit ratings and is exposed to credit losses in the event of non-performance by these financial institutions. This credit risk is generally limited to the unrealized gains in the foreign currency forward contracts. However, the Company monitors the credit quality of these financial institutions and considers the risk of counterparty default to be minimal.

9. Provision for Income Taxes

The Company recorded $8.5 million and $7.9 million of income tax expense for the three months ended March 31, 2012 and 2011, respectively. The effective rates for income taxes were 36.6% and 39.5% for the three months ended March 31, 2012 and 2011, respectively. The effective tax rate for the three months ended March 31, 2012 was lower than the effective tax rate for the three months ended March 31, 2011 primarily due to state tax credits received and included in the Company s 2012 annual effective rate and discrete items recorded during the three months ended March 31, 2012 reducing income tax expense. The Company s annual 2012 effective tax rate is expected to be approximately 37.5% to 38.0%.

10. Earnings per Share

The following represents a reconciliation from basic earnings per share to diluted earnings per share:

(In thousands, except per share amounts)	**Three Months Ended March 31,** 2012	2011
Numerator		
Net income	$ 14,661	$ 12,139
Net income attributable to participating securities	(59)	(109)
Net income available to common shareholders (1)	$ 14,602	$ 12,030
Denominator		
Weighted average common shares outstanding	51,707	50,962
Effect of dilutive securities	929	943
Weighted average common shares and dilutive securities outstanding	52,636	51,905
Earnings per share - basic	$ 0.28	$ 0.24
Earnings per share - diluted	$ 0.28	$ 0.23
(1) Basic weighted average common shares outstanding	51,707	50,962
Basic weighted average common shares outstanding and participating securities	51,923	51,444
Percentage allocated to common stockholders	99.6%	99.1%

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options and restricted stock units representing 0.1 million shares of common stock outstanding for each of the three months ended March 31, 2012 and 2011 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

11. Segment Data and Related Information

The Company s operating segments are based on how the Chief Operating Decision Maker (CODM) makes decisions about allocating resources and assessing performance. As such, the CODM receives discrete financial information by geographic region based on the Company s strategy to become a global brand. These geographic regions include North America; Latin America; Europe, the Middle East and Africa (EMEA); and Asia. The Company s operating segments are

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based on these geographic regions. Each geographic segment operates exclusively in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. Due to the insignificance of the EMEA, Latin America and Asia operating segments, they have been combined into other foreign countries for disclosure purposes.

The geographic distribution of the Company s net revenues, operating income and total assets are summarized in the following tables based on the location of its customers and operations. Net revenues represent sales to external customers for each segment. In addition to net revenues, operating income is a primary financial measure used by the Company to evaluate performance of each segment. Intercompany balances were eliminated for separate disclosure and corporate expenses from North America have not been allocated to other foreign countries.

(In thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net revenues		
North America	$ 362,521	$ 296,077
Other foreign countries	21,868	16,622
Total net revenues	$ 384,389	$ 312,699

(In thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating income		
North America	$ 22,361	$ 18,555
Other foreign countries	2,042	2,587
Total operating income	24,403	21,142
Interest expense, net	(1,355)	(579)
Other income (expense), net	82	(510)
Income before income taxes	$ 23,130	$ 20,053

(In thousands)	December 31, March 31, 2012	December 31, December 31, 2011	December 31, March 31, 2011
Total assets			
North America	$ 839,445	$ 842,121	$ 629,513
Other foreign countries	80,792	77,089	62,197
Total assets	$ 920,237	$ 919,210	$ 691,710

Net revenues by product category are as follows:

(In thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Apparel	$ 283,331	$ 230,484
Footwear	63,663	51,436
Accessories	29,635	23,537

Total net sales	376,629	305,457
License revenues	7,760	7,242
Total net revenues	$ 384,389	$ 312,699

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

Forward-Looking Statements

Some of the statements contained in this Form 10-Q and the documents incorporated herein by reference (if any) constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, outlook, potential, the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and the documents incorporated herein by reference (if any) reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by these forward-looking statements, including, but not limited to, those factors described in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission (SEC) (our 2011 Form 10-K) or in this Form 10-Q under Risk Factors , if included herein, and Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A). These factors include without limitation:

- changes in general economic or market conditions that could affect consumer spending and the financial health of our retail customers;
- our ability to effectively manage our growth and a more complex, global business;
- our ability to effectively develop and launch new, innovative and updated products;
- our ability to accurately forecast consumer demand for our products and manage our inventory in response to changing demands;
- increased competition causing us to reduce the prices of our products or to increase significantly our marketing efforts in order to avoid losing market share;
- fluctuations in the costs of our products;
- loss of key suppliers or manufacturers or failure of our suppliers or manufacturers to produce or deliver our products in a timely or cost-effective manner;
- our ability to further expand our business globally and to drive brand awareness and consumer acceptance of our products in other countries;
- our ability to accurately anticipate and respond to seasonal or quarterly fluctuations in our operating results;

our ability to effectively market and maintain a positive brand image;

the availability, integration and effective operation of management information systems and other technology; and

our ability to attract and retain the services of our senior management and key employees.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Overview

We are a leading developer, marketer and distributor of branded performance apparel, footwear and accessories. The brand s moisture-wicking fabrications are engineered in many different designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles.

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We are a growth company as evidenced by the increase in net revenues to $1,472.7 million in 2011 from $606.6 million in 2007. We reported net revenues of $384.4 million for the first three months of 2012, which represented a 22.9% increase from the first three months of 2011. We believe that our growth in net revenues has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. We plan to continue to increase our net revenues over the long term by increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution sales channel, growth in our direct to consumer sales channel and expansion in international markets. Our direct to consumer sales channel includes our factory house and specialty stores, website and catalog. New offerings for 2012 include the Armour Bra and coldblack® apparel.

Our products are currently offered in approximately twenty five thousand retail stores worldwide. A large majority of our products are sold in North America; however, we believe our products appeal to athletes and consumers with active lifestyles around the globe. Outside of North America, our products are offered primarily in Austria, France, Germany, Ireland and the United Kingdom, as well as in Japan through a licensee, and through distributors located in other foreign countries. We hold a minority investment in our licensee in Japan.

Our operating segments are geographic and include North America; Latin America; Europe, the Middle East and Africa (EMEA); and Asia. Due to the insignificance of the EMEA, Latin American and Asian operating segments, they have been combined into other foreign countries for disclosure purposes.

General

Net revenues comprise both net sales and license revenues. Net sales comprise sales from our primary product categories, which are apparel, footwear and accessories. Our license revenues consist of fees paid to us by our licensees in exchange for the use of our trademarks on core products of socks, team uniforms, baby and kids apparel, eyewear, custom-molded mouth guards, as well as the distribution of our products in Japan.

Cost of goods sold consists primarily of product costs, inbound freight and duty costs, outbound freight costs, handling costs to make products floor-ready to customer specifications, royalty payments to endorsers based on a predetermined percentage of sales of selected products and write downs for inventory obsolescence. The fabrics in many of our products are made primarily of petroleum-based synthetic materials. Therefore our product costs, as well as our inbound and outbound freight costs, could be affected by long term pricing trends of oil. In general, as a percentage of net revenues, we expect cost of goods sold associated with our apparel and accessories to be lower than that of our footwear. No cost of goods sold is associated with license revenues.

We include outbound freight costs associated with shipping goods to customers as cost of goods sold; however, we include the majority of outbound handling costs as a component of selling, general and administrative expenses. As a result, our gross profit may not be comparable to that of other companies that include outbound handling costs in their cost of goods sold. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate our distribution facilities. These costs were $7.4 million and $4.8 million for the three months ended March 31, 2012 and 2011, respectively.

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. Personnel costs are included in these categories based on the employees function. Personnel costs include salaries, benefits, incentives and stock-based compensation related to the employee. Our marketing costs are an important driver of our growth. Marketing costs consist primarily of commercials, print ads, league, team, player and event sponsorships and depreciation expense specific to our in-store fixture program. In addition, marketing costs include costs associated with our Special Make-Up Shop (SMU Shop) located at one of our distribution facilities where we manufacture a limited number of products primarily for our league, team, player and event sponsorships. Selling costs consist primarily of costs relating to sales through our wholesale channel, commissions paid to third parties and the majority of our direct to consumer sales channel costs, including the cost of factory house and specialty store leases. Product innovation and supply chain costs include our apparel, footwear and accessories product innovation, sourcing and development costs, distribution facility operating costs, and costs relating to our Hong Kong and Guangzhou, China offices which help support product development, manufacturing, quality assurance and sourcing efforts. Corporate services primarily consist of corporate facility operating costs and company-wide administrative expenses.

Other income (expense), net consists of unrealized and realized gains and losses on our derivative financial instruments and unrealized and realized gains and losses on adjustments that arise from fluctuations in foreign currency exchange rates relating to transactions generated by our international subsidiaries.

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Results of Operations

The following table sets forth key components of our results of operations for the periods indicated, both in dollars and as a percentage of net revenues:

sands)		Three Months Ended March 31, 2012	20
enues	$	384,389	$ 31
goods		209,185	16
rofit		175,204	14
and strative es		150,801	12
from ons		24,403	2
e, net		(1,355)	
ncome e), net			

the ability to negotiate new agreements in additional markets with mobile phone operators, agent financial institutions and retailers;

the ability to use existing expertise and relationships with mobile operators and retailers to our advantage;

the continued use of third-party providers such as ourselves to supply electronic processing solutions for prepaid content;

the development of mobile phone networks in the markets in which we do business and the increase in the number of mobile phone users;

the overall pace of growth in the prepaid mobile phone market;

our market share of the retail distribution capacity;

the level of commission that is paid to the various intermediaries in the prepaid distribution chain;

our ability to fully recover monies collected by retailers;

our ability to add new and differentiated prepaid products in addition to those offered by mobile operators;

the ability to take advantage of cross-selling opportunities with our Money Transfer Segment, including providing money transfer services through our prepaid locations; and

the availability of financing for further expansion.

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

the continued growth in worker migration and employment opportunities;

the mitigation of economic and political factors that have had an adverse impact on money transfer volumes, such as changes in the economic sectors in which immigrants work and the developments in immigration policies in the U.S.;

the continuation of the trend of increased use of electronic money transfer and bill payment services among immigrant workers and the unbanked population in our markets;

the ability to maintain our agent and correspondent networks;

the ability to offer our products and services or develop new products and services at competitive prices to drive increases in transactions;

the expansion of our services in markets where we operate and in new markets;

the ability to strengthen our brands;

our ability to fund working capital requirements;

- our ability to recover from agents funds collected from customers and our ability to recover advances made to correspondents;

- our ability to maintain compliance with the regulatory requirements of the jurisdictions in which we operate or plan to operate;

- the ability to take advantage of cross-selling opportunities with our epay Segment, including providing prepaid services through RIA s stores and agents worldwide;

- the ability to leverage our banking and merchant/retailer relationships to expand money transfer corridors to Europe, Asia and Africa, including high growth corridors to Central and Eastern European countries;

- the availability of financing for further expansion;

- our ability to continue to successfully integrate RIA with our other operations; and

- our ability to successfully expand our agent network in Europe using our Payment Services Directive license.

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

SEGMENT SUMMARY RESULTS OF OPERATIONS

Revenues and operating income by segment for the three- and six-month periods ended June 30, 2010 and 2009 are summarized in the tables below:

(dollar amounts in thousands)	Revenues for the Three Months Ended June 30, 2010	Revenues for the Three Months Ended June 30, 2009	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase (Decrease) Percent	Revenues for the Six Months Ended June 30, 2010	Revenues for the Six Months Ended June 30, 2009	Year-over-Year Change Increase Amount	Year-over-Year Change Increase Percent
EFT Processing	$ 46,488	$ 45,592	$ 896	2%	$ 95,054	$ 91,798	$ 3,256	4%
epay	137,689	145,253	(7,564)	(5)%	283,069	279,776	3,293	1%
Money Transfer	60,051	57,769	2,282	4%	116,108	110,737	5,371	5%
Total	$ 244,228	$ 248,614	$ (4,386)	(2)%	$ 494,231	$ 482,311	$ 11,920	2%

	Operating Income (Loss) for the Three Months		Year-over-Year Change Increase	Year-over-Year Change Increase	Operating Income (Loss) for the Six Months Ended		Year-over-Year Change Increase	Year-over-Year Change Increase

(dollar amounts in thousands)	Ended June 30, 2010	2009	(Decrease) Amount	(Decrease) Percent	June 30, 2010	2009	(Decrease) Amount	(Decrease) Percent
EFT Processing	$ 8,233	$ 9,799	$ (1,566)	(16)%	$ 17,952	$ 21,709	$ (3,757)	(17)%
epay	9,530	12,111	(2,581)	(21)%	21,600	22,987	(1,387)	(6)%
Money Transfer	4,240	2,681	1,559	58%	5,732	(5,190)	10,922	n/m
Total	22,003	24,591	(2,588)	(11)%	45,284	39,506	5,778	15%
Corporate services	(5,461)	(6,567)	1,106	(17)%	(10,513)	(11,784)	1,271	(11)%
Total	$ 16,542	$ 18,024	$ (1,482)	(8)%	$ 34,771	$ 27,722	$ 7,049	25%

n/m - Not meaningful.

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Impact of changes in foreign currency exchange rates

Compared to most of the currencies of the foreign countries in which we operate, the U.S. dollar was weaker during the first half of 2010 than it was in the first half of 2009. Because our revenues and local expenses are recorded in the functional currencies of our operating entities, amounts we earned for the first half of 2010 are positively impacted by the weaker U.S. dollar. For the second quarter of 2010, the U.S. dollar was weaker than some currencies of the foreign countries in which we operate and was stronger than others compared to the second quarter of 2009. Considering the results by country and the associated functional currency, we estimate that our operating income for the first half of 2010 benefitted by approximately 8% when compared to the first half of 2009 as a result of changes in foreign currency exchange rates. The impact of changes in foreign currency exchange rates on our consolidated operating income was negligible for the second quarter of 2010 compared to the second quarter of 2009. If significant, in our discussion we will refer to the impact of fluctuation in foreign currency exchange rates in our comparison of operating segment results for the three- and six-month periods ended June 30, 2010 and 2009. To provide further perspective on the impact of foreign currency exchange rates, the following table shows the changes in values relative to the U.S. dollar from the second quarter and first half of 2009 to the second quarter and first half of 2010 of the currencies of the countries in which we have our most significant operations:

	Average Translation Rate		Increase	Average Translation Rate		
Currency	**Three Months Ended June 30, 2010**	**Three Months Ended June 30, 2009**	**(Decrease) Percent**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**	**Increase Percent**
Australian dollar	$ 0.8834	$ 0.7615	16%	$ 0.8932	$ 0.7133	25%
British pound	$ 1.4916	$ 1.5521	(4)%	$ 1.5257	$ 1.4953	2%
euro	$ 1.2739	$ 1.3633	(7)%	$ 1.3286	$ 1.3346	
Hungarian forint	$ 0.0047	$ 0.0048	(2)%	$ 0.0049	$ 0.0046	7%
Indian rupee	$ 0.0220	$ 0.0206	7%	$ 0.0219	$ 0.0204	7%
Polish zloty	$ 0.3182	$ 0.3073	4%	$ 0.3327	$ 0.2992	11%

COMPARISON OF OPERATING RESULTS FOR THE THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009

EFT PROCESSING SEGMENT

The following table presents the results of operations for the three- and six-month periods ended June 30, 2010 and 2009 for our EFT Processing Segment:

	Three Months Ended June 30,		Year-over-Year Change		Six Months Ended June 30,		Year-over-Year Change	
(dollar amounts in thousands)	**2010**	**2009**	**Increase (Decrease) Amount**	**Increase (Decrease) Percent**	**2010**	**2009**	**Increase (Decrease) Amount**	**Increase (Decrease) Percent**
Total revenues	$ 46,488	$ 45,592	$ 896	2%	$ 95,054	$ 91,798	$ 3,256	4%
Operating expenses:								
Direct operating costs	22,790	19,656	3,134	16%	46,718	38,611	8,107	21%
Salaries and benefits	6,863	7,443	(580)	(8)%	13,104	14,455	(1,351)	(9)%

Selling, general and administrative	4,116	4,157	(41)	(1)%	7,870	8,304	(434)	(5)%
Depreciation and amortization	4,486	4,537	(51)	(1)%	9,410	8,719	691	8%
Total operating expenses	38,255	35,793	2,462	7%	77,102	70,089	7,013	10%
Operating income	$ 8,233	$ 9,799	$ (1,566)	(16)%	$ 17,952	$ 21,709	$ (3,757)	(17)%
Transactions processed (millions)	197.3	174.3	23.0	13%	384.7	327.6	57.1	17%
ATMs as of June 30	10,408	9,336	1,072	11%	10,408	9,336	1,072	11%
Average ATMs	10,370	9,280	1,090	12%	10,288	9,339	949	10%

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Revenues

Our revenues for the first half of 2010 increased when compared to the first half of 2009 primarily due to the increased transaction fees in Germany, growth in transaction volumes on Cashnet Euronet s shared ATM network in India, and the impact of the weaker U.S. dollar. Because our revenues are recorded in the functional currencies of our operating entities, amounts we earn in foreign currencies are positively impacted by the weaker U.S. dollar. These increases were partly offset by contract termination fees totaling $4.4 million during the first quarter of 2009, reductions in interchange fee revenues in Poland beginning in the second quarter of 2010 and by a decrease in revenues from our software business, mainly due to the sale of a significant license during the first quarter of 2009 to an entity in which Euronet has a 10% stake.

Average monthly revenue per ATM was $1,494 for the second quarter and $1,540 for the first half of 2010, compared to $1,638 for the second quarter and first half of 2009. The decrease in the second quarter of 2010 from the same period in 2009 is primarily due to the reduction in Visa Europe and MasterCard interchange fee revenues in Poland that took effect in the second quarter of 2010. The decrease in the first half of 2010 from the same period in 2009 was also impacted by the non-recurring contract termination fees discussed above. Revenue per transaction was $0.24 for the second quarter and $0.25 for the first half of 2010, compared to $0.26 for the second quarter and $0.28 for the first half of 2009. These decreases are primarily the result of the reduction in interchange fee revenues and the non-recurring contract termination fees discussed above, as well as the growth of Cashnet transactions which generate lower revenues per transaction than those on owned or outsourced ATMs. Partly offsetting these decreases are the increase in transaction fees in Germany and the impact of the weaker U.S. dollar. We were able to increase transaction fees in Germany beginning in mid-2009, but we are uncertain if we will be able to maintain the current rates.

Direct operating costs

Direct operating costs consist primarily of site rental fees, cash delivery costs, cash supply costs, maintenance, insurance, telecommunications and the cost of data center operations-related personnel, as well as the processing centers facility related costs and other processing center related expenses. The increase in direct operating costs for the first half of 2010, compared to the first half of 2009, is attributed to the increase in the number of ATMs under operation and the impact of the weaker U.S. dollar.

Gross profit

Gross profit, which is calculated as revenues less direct operating costs, decreased to $23.7 million for the second quarter and $48.3 million for the first half of 2010 from $25.9 million for the second quarter and $53.2 million for the first half of 2009. These decreases are mainly attributable to the reduced interchange fees in Poland and the first quarter 2009 contract termination fee revenues discussed above. Partly offsetting these decreases are the increased transaction fees in Germany, growth in Cashnet transaction volumes and the impact of the weaker U.S. dollar. Gross profit as a percentage of revenues (gross margin) was 51% for the second quarter and first half of 2010 compared to 57% for the second quarter and 58% for the first half of 2009. The decrease in the second quarter gross margin is primarily due to the previously mentioned interchange fee revenue reductions while the decrease in the first half gross margin is also impacted by the $4.4 million contract termination fees discussed above.

Salaries and benefits

The decrease in salaries and benefits for the first half of 2010 compared to the first half of 2009 is primarily due to lower bonus expense related to reduced operating income, partly offset by the impact of the weaker U.S. dollar discussed above. As a percentage of revenues, these costs decreased to 14% of revenues for the first half of 2010 compared to 16% for the first half of 2009.

Selling, general and administrative

The decrease in selling, general and administrative expenses for the first half of 2010 compared to the first half of 2009 is due to general cost control measures, partly offset by the impact of the weaker U.S. dollar discussed above. As a percentage of revenues, selling, general and administrative expenses decreased slightly to 8% for the first half of 2010 compared to 9% for the first half of 2009.

Depreciation and amortization

The increase in depreciation and amortization expense for the first half of 2010 compared to the first half of 2009 is due primarily to the growth in the number of ATMs and the impact of the weaker U.S. dollar described above. As a percentage of revenues, depreciation and amortization expense was 10% for the first half of 2010 compared to 9% for the first half of 2009.

Operating income

The decrease in operating income for the first half of 2010 compared to the first half of 2009 is primarily due to the reduced interchange fee revenues and the first quarter 2009 contract termination fees, partly offset by the increased transaction fees in Germany, growth in Cashnet volumes and the impact of the weaker U.S. dollar. Operating income as a percentage of revenues (operating margin) for the first half of 2010 was

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19% compared to 24% for the first half of 2009. Operating income per transaction was $0.05 for the first half of 2010 compared to $0.07 for the first half of 2009.

EPAY SEGMENT

The following table presents the results of operations for the three- and six-month periods ended June 30, 2010 and 2009 for our epay Segment:

(dollar amounts in thousands)	Three Months Ended June 30, 2010	2009	Year-over-Year Change Increase (Decrease) Amount	Increase (Decrease) Percent	Six Months Ended June 30, 2010	2009	Year-over-Year Change Increase (Decrease) Amount	Increase (Decrease) Percent
Total revenues	$ 137,689	$ 145,253	$ (7,564)	(5)%	$ 283,069	$ 279,776	$ 3,293	1%
Operating expenses:								
Direct operating costs	109,754	117,342	(7,588)	(6)%	225,353	226,377	(1,024)	
Salaries and benefits	7,154	6,793	361	5%	15,479	13,217	2,262	17%
Selling, general and administrative	7,429	5,409	2,020	37%	12,660	9,951	2,709	27%
Depreciation and amortization	3,822	3,598	224	6%	7,977	7,244	733	10%
Total operating expenses	128,159	133,142	(4,983)	(4)%	261,469	256,789	4,680	2%
Operating income	$ 9,530	$ 12,111	$ (2,581)	(21)%	$ 21,600	$ 22,987	$ (1,387)	(6)%
Transactions processed (millions)	204.4	194.2	10.2	5%	404.2	378.5	25.7	7%

Revenues

The increase in revenues for the first half of 2010 compared to the first half of 2009 was primarily due to the impact of the weaker U.S. dollar in the first half of 2010 compared to the same period in 2009 relative to most of the currencies of the countries in which we operate, particularly the Australian dollar. Revenues also improved due to the increase, primarily in Germany, in total transactions processed. These increases were partly offset by mobile operator commission rate decreases in certain markets, declines in transactions processed in the U.K., Australia and Spain due to economic pressures, and changes in the mix of transactions to lower revenue transactions. The epay Segment offers different levels of service with associated differences in revenues and costs per transaction. In the second quarter of 2010, transactions processed increased, but a shift in the mix of transactions contributed to lower revenues. However, due to higher profit margins for these transactions, our gross profits remained constant. Additionally, the impact of the weaker U.S. dollar was less pronounced in the second quarter of 2010 than the first; therefore, the second quarter 2010 revenues benefitted less from the changes in foreign currency exchange rates and decreased compared to the second quarter 2009 revenues.

In certain more mature markets, such as the U.K., New Zealand and Spain, revenues have remained flat or declined because conversion from scratch cards to electronic top-up is substantially complete and certain mobile operators and retailers are driving competitive reductions in pricing and margins. We expect most of our future revenue growth in this segment to be derived from: (i) additional products sold over the base of prepaid processing terminals, (ii) developing markets or markets in which there is organic growth in the prepaid sector overall, (iii) continued conversion from scratch cards to electronic top-up in less mature markets, and (iv) acquisitions, if available.

Revenues per transaction were $0.67 for the second quarter and $0.70 for the first half of 2010 compared to $0.75 for the second quarter and $0.74 for the first half of 2009. The decreases in revenues per transaction are due mainly to the decrease in mobile operator commission rates and changes in the mix of transactions, particularly growth in India where revenues per transaction are considerably lower than average.

Direct operating costs

Direct operating costs in the epay Segment include the commissions we pay to retail merchants for the distribution and sale of prepaid mobile airtime and other prepaid products, as well as expenses required to operate POS terminals. The decrease in direct operating costs is generally attributable to the decrease in mobile operator commission revenues discussed above being largely passed on to retail merchants resulting in lower commission costs, and changes in the mix of transactions to more lower-cost transactions. This decrease was partly offset by the increase in transactions processed and the impact of the weaker U.S. dollar. The decrease in direct operating costs for the first half of 2010 was less than the decrease for the second quarter of 2010 because the impact of the weaker U.S. dollar was less pronounced in the second quarter of 2010 than in the first half of 2010.

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Gross profit

Gross profit, which represents revenues less direct costs, was $27.9 million for the second quarter and $57.7 million for the first half of 2010 compared to $27.9 million for the second quarter and $53.4 million for the first half of 2009. The primary cause of the increase in gross profit for the first half of 2010 compared to the first half of 2009 is the impact of the weaker U.S. dollar, increased transaction volume in Germany and favorable product mix changes in the U.S., partly offset by the impact of mobile operator commission rate decreases, primarily in Australia, and transaction volume declines in the U.K. and Spain. Gross margin increased slightly to 20% for the second quarter and first half of 2010 compared to 19% for the same periods in 2009. Gross profit per transaction remained flat at $0.14 for the second quarter and first half of 2010 and 2009.

Salaries and benefits

The increase in salaries and benefits for the first half of 2010 compared to the first half of 2009 is primarily due to additional overhead to support development in new and growing markets, certain severance costs and the impact of the weaker U.S. dollar. As a percentage of revenues, salaries and benefits increased to 5.5% for the first half of 2010 from 4.7% for the first half of 2009.

Selling, general and administrative

The increase in selling, general and administrative expenses for the first half of 2010 compared to the first half of 2009 is mainly due to the additional overhead to support development in new and growing markets, the impact of the weaker U.S. dollar, professional fees related to due diligence, recruiting and legal matters, and certain rebranding and marketing expenses incurred in the first half of 2010. As a percentage of revenues, these expenses increased to 4.5% for the first half of 2010 compared to 3.6% for the first half of 2009.

Depreciation and amortization

Depreciation and amortization expense primarily represents amortization of acquired intangible assets and the depreciation of POS terminals we install in retail stores. Depreciation and amortization expense increased for the first half of 2010 compared to the first half of 2009 mainly due to the growth in installed POS terminals in new and growing markets, primarily Italy, and the impact of the weaker U.S. dollar. As a percentage of revenues, these expenses increased slightly to 2.8% for the first half of 2010 from 2.6% for the first half of 2009.

Operating income

Operating margin was 6.9% for the second quarter and 7.6% for the first half of 2010 compared to 8.3% for the second quarter and 8.2% for the first half of 2009. Operating income per transaction was $0.05 for the second quarter and first half of 2010 compared to $0.06 for the second quarter and first half of 2009. The decreases in operating income, operating margin and operating income per transaction for the first half of 2010 compared to the first half of 2009 are mainly due to the increase in operating expenses discussed above, partly offset by the impact of the weaker U.S. dollar.

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MONEY TRANSFER SEGMENT

The following tables present the results of operations for the three- and six-month periods ended June 30, 2010 and 2009 for the Money Transfer Segment:

	Three Months Ended June 30,		Year-over-Year Change		Six Months Ended June 30,		Year-over-Year Change	
(dollar amounts in thousands)	2010	2009	Increase (Decrease) Amount	Increase (Decrease) Percent	2010	2009	Increase (Decrease) Amount	Increase (Decrease) Percent
Total revenues	$ 60,051	$ 57,769	$ 2,282	4%	$ 116,108	$ 110,737	$ 5,371	5%
Operating expenses:								
Direct operating costs	28,292	28,055	237	1%	54,626	53,613	1,013	2%
Salaries and benefits	13,886	13,103	783	6%	28,083	24,923	3,160	13%
Selling, general and administrative	8,666	8,847	(181)	(2)%	17,610	17,662	(52)	
Goodwill and acquired intangible assets impairment				n/m		9,884	(9,884)	n/m
Depreciation and amortization	4,967	5,083	(116)	(2)%	10,057	9,845	212	2%
Total operating expenses	55,811	55,088	723	1%	110,376	115,927	(5,551)	(5)%
Operating income (loss)	$ 4,240	$ 2,681	$ 1,559	58%	$ 5,732	$ (5,190)	$ 10,922	n/m
Transactions processed (millions)	4.7	4.5	0.2	4%	9.0	8.5	0.5	6%

n/m - Not meaningful.

Revenues

Revenues from the Money Transfer Segment include a transaction fee for each transaction, as well as the difference between the price of foreign currency purchased at wholesale exchange rates and sold to customers at retail exchange rates. The increase in revenues for the first half of 2010 compared to revenues for the first half of 2009 is primarily due to the increase in the number of transactions processed. For the first half of 2010, money transfers to Mexico, which represented 22% of total money transfers, decreased by 12% while transfers to all other countries increased 12% when compared to the first half of 2009. The increase in transfers to countries other than Mexico is due to the expansion of our agent and correspondent payout networks in non-U.S. markets. The decline in transfers to Mexico was largely the result of downturns in certain labor markets and other economic factors impacting the U.S. market, as well as immigration developments in the U.S. These issues have also resulted in certain competitors lowering transaction fees and foreign currency exchange spreads in certain markets where we do business in an attempt to limit the impact on money transfer volumes. We have generally maintained our pricing structure in response to these developments. We cannot predict how long these issues will continue to impact the U.S. market or whether other markets will experience similar issues and we cannot predict whether we will change our pricing strategy over the short or long term in order to protect or increase market share.

Revenues per transaction decreased to $12.78 for the second quarter and $12.90 for the first half of 2010 from $12.84 for the second quarter and $13.03 for the first half of 2009. The growth rate of revenues slightly lagged the transaction growth rate for the first half of 2010 largely as a result of lower average amount transferred per transaction. This decrease was partly offset by the continued shift in transaction mix to non-U.S. locations which generally have higher-than-average revenues per transaction. For the six months ended June 30, 2010, 62% of our money transfers were initiated in the U.S. and 38% in non-U.S. markets compared to 66% initiated in the U.S. and 34% in non-U.S. markets for the six months ended June 30, 2009. We expect that the U.S. will continue to represent our highest volume market; however, future growth is expected to be derived from the addition of new products and the expansion of our agent and correspondent payout networks in new and existing markets, primarily outside the U.S.

Direct operating costs

Direct operating costs in the Money Transfer Segment primarily represent commissions paid to agents that originate money transfers on our behalf and distribution agents that disburse funds to the customers destination beneficiary, together with less significant costs, such as telecommunication costs and bank fees to collect money from originating agents. The increase in direct operating costs in the first half of 2010 compared to the same period in 2009 is primarily due to the growth in transactions processed.

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Gross profit

Gross profit, which represents revenues less direct costs, was $31.8 million for the second quarter and $61.5 million for the first half of 2010 compared to gross profit of $29.7 million for the second quarter and $57.1 million for the first half of 2009. The improvements are primarily due to the growth in money transfer transactions, the shift in transaction mix to transfers from non-U.S. sources and the addition of new products. Gross margin was 53% for the second quarter and first half of 2010 compared to 51% for the second quarter and 52% for the first half of 2009. This improvement primarily reflects the shift in transaction mix to transfers from non-U.S. sources, partly offset by lower revenues per transaction.

Salaries and benefits

The increase in salaries and benefits for the first half of 2010 compared to the same period in 2009 is due to the increased expenditures we incurred to support expansion of our operations, primarily internationally. As a percentage of revenues, salaries and benefits increased to 24% for the first half of 2010 from 23% for the same period in 2009.

Selling, general and administrative

Selling, general and administrative expenses for the first half of 2010 were nearly unchanged compared to the first half of 2009, primarily as the result of our ability to leverage fixed operating costs while expanding the business. As a percentage of revenues, selling, general and administrative expenses decreased to 15% for the first half of 2010 from 16% for the same period in 2009.

Goodwill and acquired intangible assets impairment

In the fourth quarter of 2008, we recorded a non-cash impairment charge of $169.4 million related to certain goodwill and intangible assets of the RIA money transfer business. This charge was an estimate based on the assessment performed up to the filing date of our 2008 Annual Report on Form 10-K. We completed the assessment in the first quarter of 2009 and recorded an additional $9.9 million non-cash impairment charge in the first quarter of 2009.

Depreciation and amortization

Depreciation and amortization primarily represents amortization of acquired intangible assets and also includes depreciation of money transfer terminals, computers and software, leasehold improvements and office equipment. For the second quarter and first half of 2010, depreciation and amortization has remained relatively flat compared to the same periods in 2009, reflecting a shift in achieving expansion more through agents which requires less capital expenditures than expansion from adding company stores. As a percentage of revenues, depreciation and amortization remained flat at 9% for the first half of 2010 and 2009.

Operating income (loss)

Excluding the goodwill and acquired intangible assets impairment charge, operating income for the first half of 2010 increased $1.0 million compared to the first half of 2009. This increase reflects the growth in transactions processed, the shift in transactions to non-U.S. markets, the addition of new products and the leveraging of fixed costs, partly offset by increased salaries and benefits expenses to expand internationally. Operating margin, excluding the goodwill and acquired intangible assets impairment charge, increased to 5% for the first half of 2010 from 4% for the same period in 2009.

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CORPORATE SERVICES

The following table presents the operating expenses for the three- and six-month periods ended June 30, 2010 and 2009 for Corporate Services:

(dollar amounts in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Year-over-Year Change Decrease Amount	Year-over-Year Change Decrease Percent	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase (Decrease) Percent
Salaries and benefits	$ 3,545	$ 3,746	$ (201)	(5)%	$ 6,954	$ 7,086	$ (132)	(2)%
Selling, general and administrative	1,639	2,498	(859)	(34)%	2,903	4,062	(1,159)	(29)%
Depreciation and amortization	277	323	(46)	(14)%	656	636	20	3%
Total operating expenses	$ 5,461	$ 6,567	$ (1,106)	(17)%	$ 10,513	$ 11,784	$ (1,271)	(11)%

Corporate operating expenses

Operating expenses for Corporate Services decreased for the first half of 2010 compared to the first half of 2009. The decrease in salaries and benefits is primarily the result of lower incentive compensation accruals, largely offset by higher salaries and share-based compensation. The increase in share-based compensation is due to the reversal of expense related to certain performance-based awards during the first half of 2009. The decrease in selling, general and administrative expenses is due mainly to lower legal and acquisition-related professional fees.

OTHER INCOME (EXPENSE)

(dollar amounts in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Year-over-Year Change Amount	Year-over-Year Change Percent	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Year-over-Year Change Amount	Year-over-Year Change Percent
Interest income	$ 572	$ 885	$ (313)	(35)%	$ 1,127	$ 1,854	$ (727)	(39)%
Interest expense	(5,031)	(6,653)	1,622	(24)%	(9,985)	(13,720)	3,735	(27)%
Income from unconsolidated affiliates	447	516	(69)	(13)%	1,001	1,034	(33)	(3)%
Loss on early retirement of debt		(150)	150	(100)%		(253)	253	(100)%
Foreign currency exchange gain (loss), net	(9,341)	9,650	(18,991)	n/m	(14,423)	(941)	(13,482)	n/m
Other income (expense), net	$ (13,353)	$ 4,248	$ (17,601)	n/m	$ (22,280)	$ (12,026)	$ (10,254)	n/m

n/m - Not meaningful.

Interest income

The decrease in interest income for the second quarter and first half of 2010 from the second quarter and first half of 2009 is primarily due to a decline in short-term interest rates and a decrease in average cash balances on hand during the respective periods.

Interest expense

The decrease in interest expense for the second quarter and first half of 2010 from the second quarter and first half of 2009 is primarily related to the reductions in debt from scheduled and early repayments on our term loan and repurchases of convertible debentures and reductions in amounts outstanding under the revolving credit facility. The decrease in interest expense is also due to lower interest rates on our floating-rate debt obligations in the second quarter and first half of 2010 compared to the same periods in 2009.

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Income from unconsolidated affiliates

Income from unconsolidated affiliates represents the equity in income of our 40% equity investment in epay Malaysia and our 49% investment in Euronet Middle East. The decrease in income is mainly the result of lower profitability of Euronet Middle East largely offset by improved profitability of epay Malaysia.

Loss on early retirement of debt

In the first half of 2009, we repurchased in privately negotiated transactions $25.8 million in principal amount of the 1.625% convertible debentures due 2024. Loss on early retirement of debt of $0.3 million for the first half of 2009 represents the difference in the amounts paid for the convertible debentures over their carrying amounts, as well as the pro-rata write-off of deferred financing costs associated with the portion of the term loan that was prepaid during the first half of 2009.

Foreign currency exchange gain (loss), net

Assets and liabilities denominated in currencies other than the local currency of each of our subsidiaries give rise to foreign currency exchange gains and losses. Exchange gains and losses that result from re-measurement of these assets and liabilities are recorded in determining net income. The majority of our foreign currency gains or losses are due to the re-measurement of intercompany loans that are in a currency other than the functional currency of one of the parties to the loan. For example, we make intercompany loans based in euros from our corporate division, which is comprised of U.S. dollar functional currency entities, to certain European entities that use the euro as the functional currency. As the U.S. dollar strengthens against the euro, foreign currency losses are generated on our corporate entities because the number of euros to be received in settlement of the loans decreases in U.S. dollar terms. Conversely, in this example, in periods where the U.S. dollar weakens, our corporate entities will record foreign currency gains.

We recorded net foreign currency exchange losses of $9.3 million and $14.4 million in the second quarter and first half of 2010, respectively, compared to a net foreign currency gain of $9.7 million in the second quarter of 2009 and a $0.9 million loss in the first half of 2009. These realized and unrealized foreign currency exchange gains and losses reflect the respective weakening and strengthening of the U.S. dollar against most of the currencies of the countries in which we operate during the respective periods.

INCOME TAX EXPENSE

Our effective tax rates as reported and as adjusted are calculated below:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollar amounts in thousands)	**2010**	**2009**	**2010**	**2009**
Income from continuing operations before income taxes	$ 3,189	$ 22,272	$ 12,491	$ 15,696
Income tax expense	4,344	6,397	10,131	11,714
Income (loss) from continuing operations	$ (1,155)	$ 15,875	$ 2,360	$ 3,982
Effective income tax rate	136.2%	28.7%	81.1%	74.6%
Income from continuing operations before income taxes	$ 3,189	$ 22,272	$ 12,491	$ 15,696
Adjust: Foreign currency exchange gain (loss), net	(9,341)	9,650	(14,423)	(941)
Adjust: Goodwill and acquired intangible assets impairment				(9,884)

Income from continuing operations before income taxes, as adjusted	$ 12,530	$ 12,622	$ 26,914	$ 26,521
Income tax expense	$ 4,344	$ 6,397	$ 10,131	$ 11,714
Adjust: Income tax expense (benefit) attributable to foreign currency exchange gain (loss), net	(193)	485	(376)	14
Income tax expense, as adjusted	$ 4,537	$ 5,912	$ 10,507	$ 11,700
Effective income tax rate, as adjusted	36.2%	46.8%	39.0%	44.1%

Our effective tax rates for continuing operations were 136.2% and 28.7% for the three-month periods ended June 30, 2010 and 2009, respectively, and were 81.1% and 74.6% for the six-month periods ended June 30, 2010 and 2009, respectively. The effective tax rates were significantly influenced by the foreign currency exchange gains and losses in the respective periods and by the goodwill and acquired intangible assets impairment charge in the first quarter of 2009. Excluding foreign currency exchange results and the impairment charge from pre-tax income, as well as the related tax effects for these items, our effective tax rates were 36.2% and 46.8% for the three

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months ended June 30, 2010 and 2009, respectively, and 39.0% and 44.1% for the six months ended June 30, 2010 and 2009, respectively.

The increase in the effective tax rate, as adjusted, for the second quarter of 2010 compared to the applicable statutory rate of 35% is primarily related to our U.S. tax position. For the three- and six-month periods ended June 30, 2010, we have recorded a valuation allowance against our U.S. federal tax net operating losses as it is more likely than not that a tax benefit will not be realized. Accordingly, the federal income tax benefit associated with pre-tax book losses generated by our U.S. entities has not been recognized in these periods. For the second quarter of 2010, this increase was partly offset by a $1.0 million adjustment to the reserve related to deferred tax assets generated from prior U.S. net operating losses. Additionally, the effective tax rate for the first half of 2010 is lower due to a $0.8 million adjustment related to a foreign tax law change.

Income from continuing operations before income taxes, as adjusted, income tax expense, as adjusted and effective income tax rate, as adjusted are non-GAAP financial measures that management believes are useful for understanding why our effective tax rates are significantly different than would be expected.

OTHER

Discontinued operations, net

During the fourth quarter of 2009, we sold Essentis in order to focus our investments and resources on our transaction processing businesses. Accordingly, Essentis s results of operations are shown as discontinued operations in the Unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2009.

Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests was $0.3 million for the second quarter and $1.0 million for the first half of 2010 compared to $0.5 million for the second quarter and $0.8 million for the first half of 2009. Noncontrolling interests represents the elimination of net income or loss attributable to the minority shareholders portion of our consolidated subsidiaries that are not wholly-owned. Our subsidiaries which are not wholly-owned are summarized in the table below:

Subsidiary	Percent Owned	Segment - Country	
Movilcarga	80%	epay	Spain
e-pay SRL	51%	epay	Italy
ATX	51%	epay	various
Euronet China	75%	EFT	China

NET INCOME (LOSS) ATTRIBUTABLE TO EURONET WORLDWIDE, INC.

Net loss attributable to Euronet Worldwide, Inc. was $1.5 million for the second quarter of 2010 and net income attributable to Euronet Worldwide, Inc. was $1.3 million for the first half of 2010 compared to net income of $15.5 million for the second quarter and $3.2 million for the first half of 2009. As more fully discussed above, the decrease of $1.9 million for the first half of 2010 as compared to the same period in 2009 was primarily the result of the $13.5 million increase in foreign currency exchange losses, partly offset by the $7.0 increase in operating income which is largely the result of the $9.9 million goodwill and acquired intangible assets impairment charge in the first half of 2009. Additionally, net interest expense decreased $3.0 million and income tax expense decreased $1.6 million in the first half of 2010.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As of June 30, 2010, we had working capital, which is calculated as the difference between total current assets and total current liabilities, of $149.3 million, compared to working capital of $167.0 million as of December 31, 2009. Our ratio of current assets to current liabilities was 1.33 as of June 30, 2010, compared to 1.34 as of December 31, 2009. The decrease in working capital was primarily due to the use of cash to reduce revolving credit facility borrowings.

We require substantial working capital to finance operations. The Money Transfer Segment funds the correspondent distribution network before receiving the benefit of amounts collected from customers by agents. Working capital needs increase due to weekends and international banking holidays. As a result, we may report more or less working capital for the Money Transfer Segment based solely upon the day on which the fiscal period ends. As of June 30, 2010, working capital in the Money Transfer Segment was $60.5 million. We expect that working capital needs will increase as we expand this business. The epay Segment produces positive working capital, but much of it is restricted in connection with the administration of its customer collection and vendor remittance activities. The EFT Processing Segment does not require substantial working capital.

Operating cash flow

Cash flows provided by operating activities were $88.0 million for the first half of 2010 compared to $50.0 million for the first half of 2009. The increase is primarily due to fluctuations in working capital primarily associated with the timing of the settlement processes with mobile operators in the epay Segment and with correspondents in the Money Transfer Segment, in addition to payments made in the first half of 2009 to secure an exclusive, long-term distribution agreement with a vendor in Australia.

Investing activity cash flow

Cash flows used in investing activities were $14.6 million for the first half of 2010, compared to $28.4 million for the first half of 2009. Our investing activities included $12.4 million and $16.8 million for purchases of property and equipment in the first half of 2010 and 2009, respectively. Additionally, the first half of 2009 included $10.0 million in cash used for acquisitions. Finally, cash used for software development and other investing activities totaled $2.1 million in the first half of 2010 and $1.6 million in the first half of 2009.

Financing activity cash flow

Cash flows used in financing activities were $42.3 million during the first half of 2010 compared to $44.4 million during the first half of 2009. Our financing activities for the first half of 2010 consisted primarily of net repayments of debt obligations of $42.7 million compared to $42.1 million for the first half of 2009. To support the short-term cash needs of our Money Transfer Segment, we generally borrow amounts under the revolving credit facility several times each month to fund the correspondent network in advance of collecting remittance amounts from the agency network. These borrowings are repaid over a very short period of time, generally within a few days. Primarily as a result of this, during the first half of 2010 we had a total of $108.0 million in borrowings and $147.2 million in repayments under our revolving credit facility. During the first half of 2010, we paid $2.2 million for repayments and early retirements of debt obligations and $1.3 million for capital lease obligations. Additionally, we paid $1.7 million and $2.4 million of dividends to noncontrolling interests stockholders in the first half of 2010 and 2009, respectively.

Expected future financing and investing cash requirements primarily depend on our acquisition activity and the related financing needs.

Other sources of capital

Credit Facility   In connection with completing the April 2007 acquisition of RIA, we entered into a $290 million secured credit facility consisting of a $190 million seven-year term loan, which was fully drawn at closing, and a $100 million five-year revolving credit facility (together, the   Credit Facility   ). The term loan bears interest at LIBOR plus 200 basis points or prime plus 100 basis points and requires that we repay $1.9 million of the balance each year, with the remaining balance payable at the end of the seven-year term. We have prepaid amounts on this loan and we estimate that we will be able to repay the remaining $128.0 term loan prior to its maturity date through cash flows available from operations, provided our operating cash flows are not required for future business developments. Up front financing costs of $4.8 million were deferred and are being amortized over the terms of the respective loans.

The revolving credit facility bears interest at LIBOR or prime plus a margin that adjusts each quarter based upon our Consolidated EBITDA ratio as defined in the Credit Facility agreement. We intend to use the revolving credit facility primarily to fund working capital requirements, which are expected to increase as we expand the Money Transfer business. Based on our current projected working capital requirements, we anticipate that our revolving credit facility will be sufficient to fund our working capital needs.

We may be required to repay our obligations under the Credit Facility six months before any potential repurchase dates, the first being October 15, 2012, under our $175 million 3.50% Convertible Debentures Due 2025, unless we are able to demonstrate that either: (i) we could borrow unsubordinated funded debt equal to the principal amount of the convertible debentures while remaining in compliance with the financial covenants in the Credit Facility or (ii) we will have sufficient liquidity to meet repayment requirements (as determined by the administrative agent and the lenders). These and other material terms and conditions applicable to the Credit

Facility are described in the agreement governing the Credit Facility.

The term loan may be expanded by up to an additional $150 million and the revolving credit facility can be expanded by up to an additional $25 million, subject to satisfaction of certain conditions including pro forma debt covenant compliance.

As of June 30, 2010, we had borrowings of $128.0 million outstanding under the term loan. We had no borrowings and $35.9 million of stand-by letters of credit outstanding under the revolving credit facility. The remaining $64.1 million under the revolving credit facility was available for borrowing. Borrowings under the revolving credit facility are being used to fund short-term working capital requirements in the U.S. and India. As of June 30, 2010, our weighted average interest rate was 2.3% under the term loan, excluding amortization of deferred financing costs.

Short-term debt obligations Short-term debt obligations at June 30, 2010 were primarily comprised of the $1.9 million annual repayment requirement under the term loan. Certain of our subsidiaries also have available credit lines and overdraft facilities to supplement short-term working capital requirements, when necessary, and there were $0.6 million outstanding under these facilities as of June 30, 2010.

We believe that the short-term debt obligations can be funded through cash generated from operations, together with cash on hand or borrowings under our revolving credit facility.

Convertible debt We have $175 million in principal amount of 3.50% Convertible Debentures Due 2025 that are convertible into 4.3 million shares of Euronet common stock at a conversion price of $40.48 per share upon the occurrence of certain events (relating to the closing prices of Euronet common stock exceeding certain thresholds for specified periods). The debentures may not be redeemed by us until October 20, 2012, but are redeemable at par at any time thereafter. Holders of the debentures have the option to require us to purchase their debentures at par on October 15, 2012, 2015 and 2020, or upon a change in control of the Company. On the maturity date, these debentures can be settled in cash or Euronet common stock, at our option, at predetermined conversion rates. Should holders of the 3.50% convertible debentures require us to repurchase their debentures on the dates outlined above, we cannot guarantee that we will have sufficient cash on hand or have acceptable financing options available to us to fund these required repurchases. An inability to be able to finance these potential repayments could have an adverse impact on our operations. These terms and other material terms and conditions applicable to the convertible debentures are set forth in the indenture agreement governing the debentures.

Other uses of capital

Payment obligations related to acquisitions We have potential contingent obligations to the former owner of the net assets of Movilcarga. Based upon presently available information, we do not believe any additional payments will be required. The seller disputed this conclusion and initiated arbitration as provided for in the purchase agreement. A global public accounting firm was engaged as an independent expert to review the results of the computation, but procedures for such review have never been commenced, principally because the seller is in a bankruptcy proceeding. Any additional payments, if ultimately determined to be owed the seller, will be recorded as additional goodwill and could be made in either cash or a combination of cash and Euronet common stock at our option.

In connection with the acquisition of Brodos Romania, we agreed to contingent consideration arrangements based on the achievement of certain performance criteria. If the criteria are achieved, we would have to pay a total of $2.5 million in cash or 75,489 shares of Euronet common stock, at the option of the seller. However, Brodos Romania failed to achieve the performance criteria by January 2010 for the first $1.25 million and based on its current performance, it is unlikely to achieve the performance criteria during 2010 for the remaining amounts.

Capital expenditures and needs Total capital expenditures for the first half of 2010 were $12.8 million. These capital expenditures were primarily for the purchase of ATMs to meet contractual requirements in Poland, India and China, the purchase and installation of ATMs in key under-penetrated markets, the purchase of POS terminals for the epay and Money Transfer Segments, and office, data center and company store computer equipment and software, including capital expenditures for the purchase and development of the necessary processing systems and capabilities to expand the cross-border merchant processing and acquiring business. Total capital expenditures for 2010 are currently estimated to be approximately $30 million to $40 million.

In the epay Segment, approximately 107,000 of the approximately 515,000 POS devices that we operate are Company-owned, with the remaining terminals being operated as integrated cash register devices of our major retail customers or owned by the retailers. As our epay Segment expands, we will continue to add terminals in certain independent retail locations at a price of approximately $300 per terminal. We expect the proportion of owned terminals to total terminals operated to remain relatively constant.

At current and projected cash flow levels, we anticipate that cash generated from operations, together with cash on hand and amounts available under our revolving credit facility and other existing and potential future financing will be sufficient to meet our debt, leasing, contingent acquisition and capital expenditure obligations. If our capital resources are not sufficient to meet these obligations, we will seek to refinance our debt and/or issue additional equity under terms acceptable to us. However, we can offer no assurances that we will be able to obtain favorable terms for the refinancing of any of our debt or other obligations or for the issuance of additional equity.

Other trends and uncertainties

ATM outsourcing agreements Our contracts in the EFT Processing Segment tend to cover large numbers of ATMs, so significant increases and decreases in our pool of managed ATMs may result from entry into or termination of these management contracts. Banks have historically been very deliberate in negotiating these agreements and have evaluated a wide range of matters when deciding to choose an outsource vendor. Generally, the process of negotiating a new agreement is subject to extensive management analysis and approvals and the process typically takes six to twelve months or longer. Increasing consolidation in the banking industry could make this process less predictable.

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Our existing contracts generally have terms of five to seven years and a number of them will expire or be up for renewal each year for the next few years. As a result, we expect to be regularly engaged in discussions with one or more of our customer banks to either obtain renewal of, or restructure, our ATM outsourcing agreements. For contracts that we are able to renew, as was the case for contract renewals in Romania and Greece in prior years, we expect customers to seek rate concessions or up-front payments because of the greater availability of alternative processing solutions in many of our markets now, as compared to when we originally entered into the contracts. While we have been successful in many cases in obtaining new terms that preserve the same level of earnings arising from the agreements, we have not been successful in all cases and, therefore, we expect to experience reductions in revenues in future quarters arising from the expiration or restructuring of agreements.

Inflation and functional currencies

Generally, the countries in which we operate have experienced low and stable inflation in recent years. Therefore, the local currency in each of these markets is the functional currency. Currently, we do not believe that inflation will have a significant effect on our results of operations or financial position. We continually review inflation and the functional currency in each of the countries where we operate.

OFF BALANCE SHEET ARRANGEMENTS

On occasion, we grant guarantees of the obligations of subsidiaries and we sometimes enter into agreements with unaffiliated third parties that contain indemnification provisions, the terms of which may vary depending on the negotiated terms of each respective agreement. Our liability under such indemnification provisions may be subject to time and materiality limitations, monetary caps and other conditions and defenses. As of June 30, 2010, there were no material changes from the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2009. To date, we are not aware of any significant claims made by the indemnified parties or parties to whom we have provided guarantees on behalf of our subsidiaries and, accordingly, no liabilities have been recorded as of June 30, 2010. See also Note 10, Guarantees, to the Unaudited Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS

As of June 30, 2010, the only material change from the disclosure relating to contractual obligations contained in our Annual Report on Form 10-K for the year ended December 31, 2009, is the $39.2 million net reduction of debt under our revolving credit facilities.

FORWARD-LOOKING STATEMENTS

This document 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). All statements other than statements of historical facts included in this document are forward-looking statements, including statements regarding the following:

trends affecting our business plans, 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;

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. Forward-looking statements are typically identified by the words believe, expect, anticipate, intend, estimate and similar expressions.

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; technological developments affecting the market for our products and services; foreign currency exchange fluctuations; our ability to renew existing contracts at profitable rates; changes in laws and regulations affecting our business, including immigration laws, and those 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, 2009 and Part II, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2010. 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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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

As of June 30, 2010, our total debt outstanding was $289.2 million. Of this amount, $157.4 million, or 54% of our total debt obligations, relates to contingent convertible debentures having a fixed coupon rate. Our $175 million principal amount of contingent convertible debentures, issued in October 2005, accrue cash interest at a rate of 3.50% of the principal amount per annum. Based on quoted market prices, as of June 30, 2010, the fair value of our fixed rate convertible debentures was $160.1 million, compared to a carrying value of $157.4 million. Interest expense for these debentures, including accretion and amortization of deferred debt issuance costs, totals approximately $13.8 million per year, or a weighted average interest rate of 8.9% annually. Additionally, approximately $3.1 million, or 1% of our total debt obligations, relate to capitalized leases with fixed payment and interest terms that expire between 2010 and 2014.

The remaining $128.7 million, or 45% of our total debt obligations, relates to debt that accrues interest at variable rates. If we were to maintain these borrowings for one year, and maximize the potential borrowings available under the revolving credit facility for one year, including the $25.0 million in potential additional expanded borrowings, a 1% increase in the applicable interest rate would result in additional interest expense to the Company of approximately $2.2 million. This computation excludes the potential additional $150.0 million under the term loan because of the limited circumstances under which the additional amounts would be available to us for borrowing.

Our excess cash is invested in instruments with original maturities of three months or less; therefore, as investments mature and are reinvested, the amount we earn will increase or decrease with changes in the underlying short term interest rates.

Foreign currency exchange rate risk

For the first half of 2010, 76% of our revenues were generated in non-U.S. dollar countries compared to 74% for the first half of 2009. We expect to continue generating a significant portion of our revenues in countries with currencies other than the U.S. dollar.

We are particularly vulnerable to fluctuations in exchange rates of the U.S. dollar to the currencies of countries in which we have significant operations, primarily the euro, British pound, Australian dollar and Polish zloty. As of June 30, 2010, we estimate that a 10% fluctuation in these foreign currency exchange rates would have the combined annualized effect on reported net income and working capital of approximately $20 million to $30 million. This effect is estimated by applying a 10% adjustment factor to our non-U.S. dollar results from operations, intercompany loans that generate foreign currency gains or losses and working capital balances that require translation from the respective functional currency to the U.S. dollar reporting currency. Additionally, we have other non-current, non-U.S. dollar assets and liabilities on our balance sheet that are translated to the U.S. dollar during consolidation. These items primarily represent goodwill and intangible assets recorded in connection with acquisitions in countries other than the U.S. We estimate that a 10% fluctuation in foreign currency exchange rates would have a non-cash impact on total comprehensive income of approximately $40 million to $50 million as a result of the change in value of these items during translation to the U.S. dollar. For the fluctuations described above, a strengthening U.S. dollar produces a financial loss, while a weakening U.S. dollar produces a financial gain. We believe this quantitative measure has inherent limitations and does not take into account any governmental actions or changes in either customer purchasing patterns or our financing or operating strategies.

Because a majority of our revenues and expenses are incurred in the functional currencies of our international operating entities, the profits we earn in foreign currencies are positively impacted by the weakening of the U.S. dollar and negatively impacted by the strengthening of the U.S. dollar. Additionally, our debt obligations are primarily in U.S. dollars, therefore, as foreign currency exchange rates fluctuate, the amount available for repayment of debt will also increase or decrease.

We are also exposed to foreign currency exchange rate risk in our Money Transfer Segment. A majority of the money transfer business involves receiving and disbursing different currencies, in which we earn a foreign currency spread based on the difference between buying currency at wholesale exchange rates and selling the currency to consumers at retail exchange rates. This spread provides some protection against currency fluctuations that occur while we are holding the foreign currency. Our exposure to changes in foreign currency exchange rates is limited by the fact that disbursement occurs for the majority of transactions shortly after they are initiated. Additionally, we enter into foreign currency forward contracts to help offset foreign currency exposure related to the notional value of money transfer transactions collected in currencies other than the U.S. dollar. As of June 30, 2010, we had foreign currency forward contracts outstanding with a notional value of $41.3 million, primarily in euros and U.S. dollars, that were not designated as hedges and mature in a weighted average of 4.1 days. The fair value of these forward contracts as of June 30, 2010 was an unrealized gain of less than $0.1 million, which was partially offset by the unrealized loss on the related foreign currency receivables.

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ITEM 4. CONTROLS AND PROCEDURES

Our executive management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act as of June 30, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of these disclosure controls and procedures were effective as of such date to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

CHANGE IN INTERNAL CONTROLS

There has been no change in our internal control over financial reporting during the second quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is from time to time a party to litigation arising in the ordinary course of its business.
Currently, there are no legal proceedings that management believes, either individually or in the aggregate, would have a material adverse effect upon the consolidated results of operations or financial condition of the Company.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as updated in our subsequent filings with the SEC before making an investment decision. The risks and uncertainties described in our Annual Report on Form 10-K, as updated by any subsequent Quarterly Reports on Form 10-Q, are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the risks identified in our Annual Report on Form 10-K, as updated by any subsequent Quarterly Reports on Form 10-Q, actually occurs, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our common stock could decline substantially. This Quarterly Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks described in our Risk Factors and elsewhere in this Quarterly Report.

There have been no material changes from the risk factors previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Report on Form 10-Q for the three months ended March 31, 2010, as filed with the SEC.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchases

For the three months ended June 30, 2010, the Company purchased, in accordance with the 2006 Stock Incentive Plan (Amended and Restated), 876 shares of its common stock for participant income tax withholding in conjunction with the lapse of restrictions on stock awards, as requested by the participants. The following table sets forth information with respect to those shares (all purchases occurred during May 2010):

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
May 1 - May 31	876	$ 14.67		
Total	876	$ 14.67		

(1) The price paid per share is the closing price of the shares on the vesting date.

ITEM 5. OTHER INFORMATION

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

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

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

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ITEM 6. EXHIBITS

a) Exhibits

The exhibits that are required to be filed or incorporated herein by reference are listed on the Exhibit Index below.

EXHIBITS

Exhibit Index

Exhibit	Description
10.1	Employment Agreement dated March 8, 2010 between Euronet Worldwide, Inc. and Charles T. Piper (1)
12.1	Computation of Ratio of Earnings to Fixed Charges (1)
31.1	Section 302 Certification of Chief Executive Officer (1)
31.2	Section 302 Certification of Chief Financial Officer (1)
32.1	Section 906 Certification of Chief Executive Officer (2)
32.2	Section 906 Certification of Chief Financial Officer (2)
101	The following materials from Euronet Worldwide, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2010 and 2009, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2010 and 2009, (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2010 and 2009, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009, and (v) Notes to the Unaudited Consolidated Financial Statements, tagged as blocks of text. (3)

(1) Filed herewith.

(2) Pursuant to Item 601(b)(32) of Regulation S-K, this Exhibit is furnished rather than filed with this Form 10-Q.

(3) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed

or part of a registration statement or prospectus for puposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

PLEASE NOTE: Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed or incorporated by reference the agreements referenced above as exhibits to this Quarterly Report on Form 10-Q. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company s public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 5, 2010

Euronet Worldwide, Inc.

By: /s/ MICHAEL J. BROWN

Michael J. Brown
Chief Executive Officer

By: /s/ RICK L. WELLER

Rick L. Weller
Chief Financial Officer