EURONET WORLDWIDE INC
Form 10-Q
July 31, 2015

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

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

For the quarterly period ended June 30, 2015
OR

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

For the transition period to
Commission File Number: 001-31648
EURONET WORLDWIDE, INC.
(Exact name of registrant as specified in its charter)

Delaware	74-2806888
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3500 College Boulevard Leawood, Kansas	66211
(Address of principal executive offices)	(Zip Code)

(913) 327-4200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 o

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

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

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

On July 30, 2015, Euronet Worldwide, Inc. had 52,717,405 shares of Common Stock outstanding.

EURONET WORLDWIDE, INC. AND SUBSIDIARIES
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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

EURONET WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	As of June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$538,075	$ 468,010
Restricted cash	45,865	68,028
Inventory — PINs and other	59,404	85,675
Trade accounts receivable, net of allowances for doubtful accounts of $18,832 at June 30, 2015 and $20,546 at December 31, 2014	325,848	375,579
Prepaid expenses and other current assets	121,273	108,624
Total current assets	1,090,465	1,105,916
Property and equipment, net of accumulated depreciation of $242,024 at June 30, 2015 and $239,607 at December 31, 2014	140,070	125,307
Goodwill	605,265	599,863
Acquired intangible assets, net of accumulated amortization of $121,854 at June 30, 2015 and $113,153 at December 31, 2014	176,052	158,267
Other assets, net of accumulated amortization of $33,920 at June 30, 2015 and $30,276 at December 31, 2014	61,098	62,206
Total assets	$2,072,950	$ 2,051,559
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$393,817	$ 445,984
Accrued expenses and other current liabilities	393,071	336,361
Current portion of capital lease obligations	2,241	2,216
Short-term debt obligations and current maturities of long-term debt obligations	14,653	11,156
Income taxes payable	11,695	19,248
Deferred revenue	32,342	33,916
Total current liabilities	847,819	848,881
Debt obligations, net of current portion	415,455	410,368
Capital lease obligations, net of current portion	3,739	2,148
Deferred income taxes	46,210	38,959
Other long-term liabilities	18,492	18,391
Total liabilities	1,331,715	1,318,747
Equity:		
Euronet Worldwide, Inc. stockholders' equity:		
Preferred Stock, $0.02 par value. 10,000,000 shares authorized; none issued	—	—
Common Stock, $0.02 par value. 90,000,000 shares authorized; 56,979,239 issued at June 30, 2015 and 56,464,187 issued at December 31, 2014	1,140	1,129
Additional paid-in-capital	970,162	955,715
	(138,472)	(133,788)

Treasury stock, at cost, 4,939,904 shares at June 30, 2015 and 4,867,420 shares at December 31, 2014		
Retained earnings	39,606	5,619
Accumulated other comprehensive loss	(132,747)	(97,922)
Total Euronet Worldwide, Inc. stockholders’ equity	739,689	730,753
Noncontrolling interests	1,546	2,059
Total equity	741,235	732,812
Total liabilities and equity	$2,072,950	$ 2,051,559

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	$425,148	$395,462	$820,310	$748,777
Operating expenses:				
Direct operating costs	258,079	242,637	509,436	468,975
Salaries and benefits	64,760	60,368	125,088	113,942
Selling, general and administrative	38,616	40,981	72,650	73,852
Depreciation and amortization	16,513	17,348	33,793	33,498
Total operating expenses	377,968	361,334	740,967	690,267
Operating income	47,180	34,128	79,343	58,510
Other income (expense):				
Interest income	494	627	1,103	1,159
Interest expense	(6,094)	(2,442)	(11,792)	(4,430)
Loss from unconsolidated affiliates	—	(31)	—	(31)
Foreign currency exchange loss, net	(5,104)	(3,087)	(18,056)	(4,356)
Other gains	388	—	388	—
Other expense, net	(10,316)	(4,933)	(28,357)	(7,658)
Income before income taxes	36,864	29,195	50,986	50,852
Income tax expense	(10,343)	(8,707)	(17,340)	(14,431)
Net income	26,521	20,488	33,646	36,421
Net loss attributable to noncontrolling interests	288	14	341	103
Net income attributable to Euronet Worldwide, Inc.	$26,809	$20,502	$33,987	$36,524
Earnings per share attributable to Euronet Worldwide, Inc. stockholders:				
Basic	$0.52	$0.40	$0.66	$0.71
Diluted	$0.50	$0.38	$0.64	$0.69
Weighted average shares outstanding:				
Basic	51,935,757	51,675,775	51,804,459	51,231,997
Diluted	53,658,504	53,773,759	53,492,580	53,279,782

See accompanying notes to the unaudited consolidated financial statements.

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EURONET WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$26,521	$20,488	$33,646	$36,421
Translation adjustment	20,400	4,137	(34,940)	7,336
Comprehensive (loss) income	46,921	24,625	(1,294)	43,757
Comprehensive loss attributable to noncontrolling interests	239	26	456	114
Comprehensive income (loss) attributable to Euronet Worldwide, Inc.	$47,160	$24,651	$(838)	$43,871

See accompanying notes to the unaudited consolidated financial statements.

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EURONET WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30, 2015	2014
Net income	$33,646	$36,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,793	33,498
Share-based compensation	6,415	6,511
Unrealized foreign exchange loss, net	18,056	4,356
Deferred income taxes	(665)	(2,896)
Loss from unconsolidated affiliates	—	31
Accretion of convertible debt discount and amortization of debt issuance costs	6,066	583
Changes in working capital, net of amounts acquired:		
Income taxes payable, net	(5,424)	(1,113)
Restricted cash	19,359	16,574
Inventory — PINs and other	22,012	24,720
Trade accounts receivable	42,704	53,423
Prepaid expenses and other current assets	(14,726)	5,637
Trade accounts payable	(33,814)	(69,469)
Deferred revenue	304	(2,298)
Accrued expenses and other current liabilities	29,909	(4,598)
Changes in noncurrent assets and liabilities	(707)	1,744
Net cash provided by operating activities	156,928	103,124
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(29,264)	(83,408)
Purchases of property and equipment	(34,396)	(29,268)
Purchases of other long-term assets	(3,347)	(2,922)
Other, net	799	206
Net cash used in investing activities	(66,208)	(115,392)
Cash flows from financing activities:		
Proceeds from issuance of shares	4,629	5,914
Repurchase of shares	(5,143)	(766)
Borrowings from revolving credit agreements	119,580	1,206,556
Repayments of revolving credit agreements	(116,790)	(1,008,600)
Proceeds from long-term debt obligations	—	9,000
Repayments of long-term debt obligations	(2,344)	(2,938)
Repayments of capital lease obligations	(1,689)	(1,231)
Borrowings from short-term debt obligations, net	1,474	3,597
Other, net	481	(2,154)
Net cash provided by financing activities	198	209,378
Effect of exchange rate changes on cash and cash equivalents	(20,853)	1,434
Increase in cash and cash equivalents	70,065	198,544
Cash and cash equivalents at beginning of period	468,010	209,826
Cash and cash equivalents at end of period	$538,075	$408,370

Supplemental disclosure of cash flow information:

Interest paid during the period	$5,050	$3,314
Income taxes paid during the period	$21,510	$17,655
Supplemental disclosure of non-cash investing and financing activities:		
Equity issued in connection with acquisitions	$2,962	$56,554

See accompanying notes to the unaudited consolidated financial statements.

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

(1) GENERAL
Organization
Euronet Worldwide, Inc. (together with its subsidiaries, the “Company” or “Euronet”) is a leading electronic payments provider. Euronet offers payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Euronet's primary product offerings include comprehensive automated teller machine (“ATM”), point-of-sale (“POS”), card outsourcing, card issuing and merchant acquiring services; electronic distribution of prepaid mobile airtime and other electronic payment products; and global money transfer services.
Basis of Presentation
The accompanying unaudited consolidated financial statements have been prepared from the records of the Company, in conformity with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, such unaudited consolidated financial statements contain all adjustments (consisting of normal interim closing procedures) necessary to present fairly on a consolidated basis the financial position of the Company as of June 30, 2015, the results of its operations for the three and six months ended June 30, 2015 and 2014 and cash flows for the six months ended June 30, 2015 and 2014. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2014, including the notes thereto, set forth in the Company’s 2014 Annual Report on Form 10-K. Certain amounts in prior years have been reclassified to conform to the current year's presentation.
Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Significant items subject to such estimates and assumptions include computing income taxes, estimating the useful lives and potential impairment of long-lived assets and goodwill, as well as allocating the purchase price to assets acquired and liabilities assumed in acquisitions and revenue recognition. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.
Seasonality
Euronet’s EFT Processing Segment experiences its heaviest demand for dynamic currency conversion services during the third quarter of the fiscal year, coinciding with tourism season. Additionally, the EFT Processing and epay Segments are impacted by seasonality during the fourth quarter and first quarter of each year due to higher transaction levels during the holiday season and lower levels following the holiday season. Seasonality in the Money Transfer Segment varies by regions of the world. In most markets, Euronet usually experiences increased demand for money transfer services from the month of May through the fourth quarter of each year, coinciding with the increase in worker migration patterns and various holidays, and experiences its lowest transaction levels during the first quarter of each year.

(2) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently Issued
In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-11, Inventory ("ASU 2015-11"), which simplifies the valuation of inventory by using the lower of cost or net realizable value. ASU 2015-11 will become effective for the Company on January 1, 2017 and early adoption is permitted. The guidance is to be applied on a prospective basis. The adoption of ASU 2015-11 is not expected to have a significant impact on the Company's financial position, results of operations or cash flows.

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest ("ASU 2015-03"), which requires that transaction costs related to the issuance of debt be deducted from the carrying value of the financial liability and not recorded as separate assets. ASU 2015-03 will become effective for the Company on January 1, 2016 and early adoption is permitted. The guidance is to be applied on a retrospective basis. Euronet has debt issuance costs which will be reclassified upon adoption of the guidance, but it is not expected to have a significant impact on the Company's financial position and it will have no impact upon the Company's results of operations or cash flows.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of

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promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of the effective date of the new revenue recognition standard. The new standard will become effective for the Company on January 1, 2018 and the Company has the option to adopt it effective January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected an adoption date, a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

(3) STOCKHOLDERS' EQUITY

Earnings Per Share

Basic earnings per share has been computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the respective period. Diluted earnings per share has been computed by dividing earnings available to common stockholders by the weighted average shares outstanding during the respective period, after adjusting for any potential dilution of options to purchase the Company's common stock, assumed vesting of restricted stock and the assumed conversion of the Company’s convertible debentures. The following table provides the computation of diluted weighted average number of common shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Computation of diluted weighted average shares outstanding:				
Basic weighted average shares outstanding	51,935,757	51,675,775	51,804,459	51,231,997
Incremental shares from assumed exercise of stock options and vesting of restricted stock	1,722,747	2,097,984	1,688,121	2,047,785
Diluted weighted average shares outstanding	53,658,504	53,773,759	53,492,580	53,279,782

The table includes the impact of all stock options and restricted stock that are dilutive to the Company’s weighted average common shares outstanding during the three and six months ended June 30, 2015 and 2014. The calculation of diluted earnings per share excludes stock options or shares of restricted stock that are anti-dilutive to the Company’s weighted average common shares outstanding of approximately 620,000 and 888,000 for the three and six months ended June 30, 2015, respectively, and approximately 674,000 for both the three and six months ended June 30, 2014.

During the six months ended June 30, 2015, the Company had convertible notes outstanding that, if converted, would have had a potentially dilutive effect on its common stock. At issuance, the Company stated its intent to settle any conversion of these notes by paying cash for the principal value and issuing common stock for any conversion value in excess of the principal value. As of June 30, 2015, and currently, the Company maintains the intent and ability to settle any conversion as stated. Accordingly, the convertible notes would only have a dilutive effect if the market price per share of common stock exceeds the conversion price per share of common stock. Therefore, according to Accounting Standards Codification ("ASC") Topic 260, Earnings per Share, these notes were not dilutive to earnings per share for the three and six months ended June 30, 2015. See Note 7, Debt Obligations, for more information about the convertible notes.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists entirely of foreign currency translation adjustments. The Company recorded a foreign currency translation gain of $20.4 million and a loss of $34.9 million for the three and six months ended June 30, 2015, respectively, and gains of $4.1 million and $7.3 million for the three and six months ended June 30, 2014, respectively. There were no reclassifications of foreign currency translation into the consolidated statements of income for the three and six months ended June 30, 2015 and 2014.

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(4) ACQUISITION

On June 17, 2015, the Company completed the acquisition of all of the capital stock of IME (M) Sdn Bhd and certain affiliated companies ("IME") pursuant to a Share Purchase Agreement (the "Purchase Agreement") among the Company and the selling shareholders of IME (the "Sellers"). IME is a leading Malaysian-based money transfer provider and provides the Money Transfer Segment with immediate entry into the Asian and Middle East send markets.

Under the terms of the Purchase Agreement, the Sellers received purchase consideration (the "Purchase Consideration") of $79.6 million in cash and 49,941 shares of Euronet common stock, with a fair value at date of acquisition of $3.0 million. A portion of the Purchase Consideration was placed in escrow at closing as security for the Sellers' indemnification and other obligations under the Purchase Agreement. Any Purchase Consideration remaining in escrow will be released to the Sellers at various defined dates over five years following the closing date, net of any pending indemnification or other claims under the Purchase Agreement.

The Purchase Consideration was allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. The valuation of the acquired net assets remains preliminary while management completes its valuation, particularly the valuation of acquired intangible assets. None of the goodwill or intangible asset amounts are expected to be deductible for income tax purposes. Pro-forma results of operations, assuming this acquisition was made at the beginning of the earliest period presented, have not been presented because the effect of this acquisition was not material to the Company's results. The net assets of the IME and its results from operations are included in the Money Transfer Segment's results.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

(in thousands)	As of June 17, 2015
Cash and cash equivalents	$33,229
Other current assets	17,052
Intangible assets	35,130
Other long-term assets	5,253
Total assets acquired	90,664
Trade accounts payable	(1,894)
Accrued expenses and other current liabilities	(1,555)
Settlement obligations and customer deposits	(27,700)
Deferred tax liabilities	(9,122)
Other long-term liabilities	(858)
Total liabilities assumed	(41,129)
Goodwill	33,092
Net assets acquired	$82,627

The intangible assets of IME are being amortized on a straight-line basis, and the estimated fair values consist of the following:

(in thousands)	Fair Value	Estimated Useful Life
Customer relationships	$33,940	8 years
Trade names	650	2 years
Non-compete agreements	540	5 years
Total intangible assets	$35,130	

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(5) GOODWILL AND ACQUIRED INTANGIBLE ASSETS, NET

A summary of acquired intangible assets and goodwill activity for the six months ended June 30, 2015 is presented below:

(in thousands)	Acquired Intangible Assets	Goodwill	Total Intangible Assets
Balance as of December 31, 2014	$158,267	$599,863	$758,130
Increases (Decreases):			
Acquisition	35,130	33,092	68,222
Amortization	(11,446)	—	(11,446)
Other (primarily changes in foreign currency exchange rates)	(5,899)	(27,690)	(33,589)
Balance as of June 30, 2015	$176,052	$605,265	$781,317

Estimated amortization expense on intangible assets with finite lives, before income taxes, as of June 30, 2015, is expected to total $14.3 million for the remainder of 2015, $19.0 million for 2016, $17.1 million for 2017, $15.0 million for 2018, $14.3 million for 2019 and $13.9 million for 2020.

The Company's annual goodwill impairment test is performed during the fourth quarter of its fiscal year. The annual impairment test for the year ended December 31, 2014 resulted in no impairment charge.

Determining the fair value of reporting units requires significant management judgment in estimating future cash flows and assessing potential market and economic conditions. It is reasonably possible that the Company's operations will not perform as expected, or that the estimates or assumptions included in the 2014 annual impairment test could change, which may result in the Company recording material non-cash impairment charges during the year in which these changes take place.

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

(in thousands)	As of June 30, 2015	December 31, 2014
Accrued expenses	$112,689	$ 97,115
Money transfer settlement obligations	184,934	137,285
Accrued amounts due to mobile operators and other content providers	46,751	64,839
Derivative liabilities	47,422	36,439
Deferred income taxes	1,275	683
Total	$393,071	$ 336,361

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(7) DEBT OBLIGATIONS

A summary of debt obligation activity for the six months ended June 30, 2015 is presented below:

(in thousands)	Revolving Credit Facilities	Other Debt Obligations	Capital Leases	1.5% Convertible Debentures Due 2044	Term Loan A	Total
Balance as of December 31, 2014	$5,316	$ 6,035	$4,364	$ 337,986	$72,187	$425,888
Increases (decreases):						
Net borrowings (repayments)	1,743	3,807	1,719	—	(2,344)	4,925
Accretion	—	—	—	4,882	—	4,882
Capital lease interest	—	—	173	—	—	173
Foreign currency exchange gain	962	(466)	(276)	—	—	220
Balance as of June 30, 2015	8,021	9,376	5,980	342,868	69,843	436,088
Less — current maturities	—	(8,559)	(2,241)	—	(6,094)	(16,894)
Long-term obligations as of June 30, 2015	$8,021	$ 817	$3,739	$ 342,868	$63,749	$419,194

Credit Facility

As of June 30, 2015, the Company had a $675 million senior secured credit facility (the "Credit Facility") consisting of a $600 million revolving credit facility and a $75 million term loan ("Term Loan A"), which had been reduced to $69.8 million through principal amortization payments. The Credit Facility expires April 9, 2019.

Interest on borrowings under the revolving credit facility and Term Loan A varies based upon the Company's consolidated total leverage ratio, as defined in the Company's credit agreement, and during the second quarter of 2015 was based on a margin over the London Inter-Bank Offered Rate (“LIBOR”) rate or a margin over a base rate, as selected by the Company, with the applicable margin ranging from 1.375% to 2.375% for LIBOR loans or 0.375% to 1.375% for base rate loans. Accordingly, the weighted average interest rate for borrowings outstanding under the Company's revolving credit facility and Term Loan A was 10.75% and 1.81%, respectively, as of June 30, 2015, excluding amortization of deferred financing costs.

Convertible Debt

On October 30, 2014, the Company completed the sale of $402.5 million of Convertible Senior Notes due 2044 (“Convertible Notes”). The Convertible Notes have an interest rate of 1.5% per annum payable semi-annually in April and October, and are convertible into shares of Euronet Common Stock at a conversion price of approximately $72.18 per share if certain conditions are met (relating to the closing prices of Euronet Common Stock exceeding certain thresholds for specified periods). Holders of the Convertible Notes have the option to require the Company to purchase their notes at par on October 1, 2020, and have additional options to require the Company to purchase their notes at par on October 1, 2024, 2029, 2034, and 2039, or upon a change in control of the Company. In connection with the issuance of the Convertible Notes, the Company recorded $10.7 million in debt issuance costs, which are being amortized through October 1, 2020.

In accordance with Accounting Standards Codification ("ASC") 470-20-30-27, proceeds from the issuance of convertible debt are allocated between debt and equity components so that debt is discounted to reflect the Company's nonconvertible debt borrowing rate. ASC 470-20-35-13 requires the debt discount to be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The allocation resulted in an increase to additional paid in capital of $66.1 million.

Contractual interest expense was $1.5 million and $3.0 million for the three and six months ended June 30, 2015. Accretion expense was $2.5 million and $4.9 million for the three and six months ended June 30, 2015. The effective interest rate was 4.7% for the three and six months ended June 30, 2015. As of June 30, 2015, the unamortized discount was $59.6 million, and will be amortized through October 1, 2020.

(8) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to foreign currency exchange risk resulting from (i) the collection of funds or the settlement of money transfer transactions in currencies other than the U.S. Dollar, (ii) derivative contracts written to its customers in connection with providing cross-currency money transfer services and (iii) short-term borrowings that are payable in currencies other than the U.S dollar. The Company enters into foreign currency derivative contracts, primarily foreign currency forwards and cross-

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currency swaps, to minimize its exposure related to fluctuations in foreign currency exchange rates. As a matter of Company policy, the derivative instruments used in these activities are economic hedges and are not designated as hedges under ASC Topic 815, Derivatives and Hedging, primarily due to either the relatively short duration of the contract term or the effects of fluctuations in currency exchange rates are reflected concurrently in earnings for both the derivative instrument and the transaction and have an offsetting effect.

Foreign currency exchange contracts - Ria Operations

In the United States, the Company uses short-duration foreign currency forward contracts, generally with maturities up to 14 days, to offset the fluctuation in foreign currency exchange rates on the collection of money transfer funds between initiation of a transaction and its settlement. Due to the short duration of these contracts and the Company’s credit profile, the Company is generally not required to post collateral with respect to these foreign currency forward contracts. Most derivative contracts executed with counterparties in the U.S. are governed by an International Swaps and Derivatives Association agreement that includes standard netting arrangements; therefore, asset and liability positions from forward contracts and all other foreign exchange transactions with the same counterparty are net settled upon maturity.

As of June 30, 2015, the Company had foreign currency forward contracts outstanding in the U.S. with a notional value of $158 million, primarily in Australian dollars, Canadian dollars, British pounds, euros and Mexican pesos.

Foreign currency exchange contracts - HiFX Operations

HiFX writes derivative instruments, primarily foreign currency forward contracts and cross-currency swaps, mostly with counterparties comprised of individuals and small-to-medium size businesses and derives a currency margin from this activity as part of its operations. HiFX aggregates its foreign currency exposures arising from customer contracts and hedges the resulting net currency risks by entering into offsetting contracts with established financial institution counterparties. Foreign exchange revenues from HiFX's total portfolio of positions were $15.9 million and $31.6 million for the three and six months ended June 30, 2015, respectively, and $7.1 million for the three months ended June 30, 2014. All of the derivative contracts used in the Company' s HiFX operations are economic hedges and are not designated as hedges under ASC Topic 815, Derivatives and Hedging. The duration of these derivative contracts is generally less than one year.

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

The aggregate equivalent U.S. dollar notional amounts of foreign currency derivative customer contracts held by the Company in its HiFX operations as of June 30, 2015 was approximately $770 million. The majority of customer contracts are written in major currencies such as the euro, Canadian dollar, British pound, and Australian dollar.

Balance Sheet Presentation

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

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
(in thousands)	Balance Sheet Location	June 30, 2015	December 31, 2014	Balance Sheet Location	June 30, 2015	December 31, 2014
Derivatives not designated as hedging instruments						
	Other current assets	$50,881	$ 41,151		$(47,422)	$ (36,439)

Foreign currency exchange contracts	Other current liabilities

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The following tables summarize the gross and net fair value of derivative assets and liabilities as of June 30, 2015 and December 31, 2014 (in thousands):

Offsetting of Derivative Assets

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
As of June 30, 2015	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amounts
Derivatives subject to a master netting arrangement or similar agreement	$50,881	$—	$50,881	$(31,897)	$(7,757)	$11,227
As of December 31, 2014						
Derivatives subject to a master netting arrangement or similar agreement	$41,151	$—	$41,151	$(28,113)	$(5,279)	$7,759

Offsetting of Derivative Liabilities

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
As of June 30, 2015	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Paid	Net Amounts
Derivatives subject to a master netting arrangement or similar agreement	$(47,422)	$—	$(47,422)	$31,897	$5,401	$(10,124)
As of December 31, 2014						
Derivatives subject to a master netting arrangement or similar agreement	$(36,439)	$—	$(36,439)	$28,113	$176	$(8,150)

Income Statement Presentation

The following tables summarize the location and amount of gains and losses of derivatives in the Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014:

		Amount of Loss Recognized in Income on Derivative Contracts (a)			
		Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	Location of Gain (Loss) Recognized in Income on Derivative Contracts	2015	2014	2015	2014
		$(1,923)	$(406)	$(34)	$(1,153)

Foreign currency exchange contracts - Ria Operations	Foreign currency exchange loss, net

(a) The Company enters into derivative contracts such as foreign currency exchange forwards and cross-currency swaps as part of its HiFX operations. These derivative contracts are excluded from this table as they are part of the broader disclosure of foreign currency exchange revenues for this business discussed above.

See Note 9, Fair Value Measurements, for the determination of the fair values of derivatives.

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(9) FAIR VALUE MEASUREMENTS

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the inputs that market participants would use in pricing.

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

		As of June 30, 2015			
(in thousands)	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Assets					
Foreign currency exchange contracts	Other current assets	$—	$50,881	$—	