UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

OR

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

COMMISSION FILE NUMBER C00-22167

EURONET SERVICES INC.
(Exact name of the registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

74-2806888
(I.R.S. employer identification no.)

14-24 HORVAT U.
1027 BUDAPEST
HUNGARY
(Address of principal executive offices)

36-1-224-1000
(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 [X] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As at July 31, 1997 17,230,058 Common Shares.

PART I

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| | JUNE 30, 1997 (UNAUDITED) | DECEMBER 31, 1996 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $20,388 | $2,541 |
| Restricted cash | 3,515 | 818 |
| Trade accounts receivable, net | 455 | 172 |
| Investment securities | 27,811 | 194 |
| Prepaid expenses and other current assets | 1,435 | 433 |
| Total current assets | 53,604 | 4,158 |
| Property and equipment, net | 14,112 | 7,284 |
| Loans receivable, excluding current portion | 26 | 21 |
| Deferred income taxes | 600 | 471 |
| Total assets | $68,342 | $11,934 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Trade accounts payable | $3,478 | $1,670 |
| Short term borrowings | 171 | 194 |
| Current installments of capital leases obligations | 1,627 | 637 |
| Note payable -- shareholder | 72 | 262 |
| Accrued expenses and other current liabilities | 206 | 98 |
| Total current liabilities | 5,554 | 2,861 |
| Obligations under capital leases, excluding current installments | 8,040 | 3,834 |
| Other long-term liabilities | 68 | 103 |
| Total liabilities | 13,662 | 6,798 |
| Shareholders' equity: | | |
| Common and preferred shares, Euronet Holding N.V | -- | 191 |
| Common stock, $0.02 par value; 30,000,000 shares authorized; 14,969,943 shares issued and outstanding | 300 | -- |
| Treasury stock | (4) | -- |
| Additional paid in capital | 63,047 | 11,666 |
| Subscription receivable | -- | (500) |
| Accumulated losses | (9,447) | (7,005) |
| Restricted reserve | 784 | 784 |
| Total shareholders' equity | 54,680 | 5,136 |
| Total liabilities and shareholders' equity | $68,342 | $11,934 |

See accompanying notes to condensed consolidated statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| Revenue | 1,061 | 170 | 1,856 | 270 |
| Operating expenses: | | | | |
| ATM operating costs | (965) | (299) | (1,653) | (531) |
| Other operating costs | (1,918) | (1,002) | (3,024) | (1,403) |
| Operating loss | (1,822) | (1,131) | (2,821) | (1,664) |
| Other income (expenses) | 192 | 86 | 250 | (77) |
| Loss before income taxes | (1,630) | (1,045) | (2,571) | (1,741) |
| Deferred income tax benefit | 3 | 33 | 129 | 87 |
| Net loss | $(1,627) | $(1,012) | $(2,442) | $(1,654) |
| Loss per share (Note 4) | $(0.09) | $(0.07) | $(0.15) | $(0.12) |
| Average shares outstanding (Note 4) | 17,537,509 | 13,838,078 | 16,328,580 | 13,838,078 |

See accompanying notes to condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30 | |
|---|---|---|
| | 1997 | 1996 |
| Cash flows from operating activities: | | |
| Net loss | $(2,442) | $(1,654) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Share compensation expense | 54 | -- |
| Depreciation of property, plant and equipment | 549 | 209 |
| Deferred income taxes | (129) | (87) |
| Increase in restricted cash | (2,697) | (50) |
| Increase in trade accounts receivable | (283) | (27) |
| Increase in prepaid expenses and other current assets | (1,002) | (3,819) |
| Increase in trade accounts payable | 1,808 | 536 |
| Increase/(Decrease) in accrued expenses and other long-term liabilities | 73 | (395) |
| Net cash used in operating activities | (4,069) | (5,287) |
| Cash flows from investing activities: | | |
| Fixed asset purchases | (1,628) | (505) |
| Purchase of investment securities | (27,617) | (209) |
| Net increase in loan receivable | (5) | (2) |
| Net cash used in investing activities | (29,250) | (716) |
| Cash flows from financing activities: | | |
| Net proceeds from public offering | 47,857 | -- |
| Capital contributions | 4,079 | 5,973 |
| Purchase of treasury stock | (4) | -- |
| Repayment of obligations under capital leases | (553) | (172) |
| (Repayment of)/proceeds from bank borrowings | (23) | 209 |
| (Repayment of)/proceeds from loan from shareholder | (190) | 108 |
| Net cash provided by financing activities | 51,166 | 6,118 |
| Net increase in cash and cash equivalents | 17,847 | 115 |
| Cash and cash equivalents at beginning of period | 2,541 | 411 |
| Cash and cash equivalents at end of period | $20,388 | $ 526 |

See accompanying notes to condensed consolidated financial statements.

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Euronet Services Inc. have been prepared from the records of Euronet Services Inc. and subsidiaries (collectively, the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, such financial statements include all adjustments (consisting only of normal, recurring accruals) necessary to present fairly the financial position of the Company at June 30, 1997 and the results of its operations for the three month and six month periods ended June 30, 1997 and 1996 and its cash flows for the six months ended June 30, 1997 and 1996. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Euronet Holding N.V. ("Euronet N.V.") for the year ended December 31, 1996, including the notes thereto, set forth in the Company's Form S-1 Registration Statement (No. 33-18121).

The results of operations for the three month and six month periods ended June 30, 1997 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 -- INVESTMENT SECURITIES

Significantly all of the investment securities at June 30, 1997 consist of government debt securities, carried at amortized cost and are due within one year. In accordance with the provisions of Statement of Financial Accounting Standards Board No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company classifies its investments as held-to-maturity securities.

NOTE 3 -- SIGNIFICANT ACCOUNTING POLICIES

There have been no significant additions to or changes in accounting policies of the Company since December 31, 1996 except as specified in Note 2 above. For a description of these policies, see Note 2 of Notes to Consolidated Financial Statements for the year ended December 31, 1996.

NOTE 4 -- NET LOSS PER SHARE

As the capital structure of the Company during 1996 is not indicative of the capital structure after the initial public offering, pro-forma net loss per share calculation for the three months and six months ended June 30, 1996 has been included. The pro-forma number of common and common equivalent shares, as described in the audited consolidated financial statements of Euronet N.V. for the year ended December 31, 1996 have been applied to the three month and six month periods ended June 30, 1996. Common stock equivalents consist of shares issuable under the Company's stock option plans using the treasury stock method.

Loss per share for the three month and six month periods ended June 30, 1997 have been computed by dividing net loss by the weighted average number of common shares outstanding after giving effect to dilutive stock options. The weighted average number of common shares outstanding assumes that the shares issued by the Company prior to the date of the initial public offering, being March 7, 1997, have been outstanding for all periods prior to this date.

NOTE 5 -- INITIAL PUBLIC OFFERING OF COMMON STOCK

On March 7, 1997, the Company consummated an initial public offering of 6,095,000 shares of common stock at a price of $13.50 per share. Of the 6,095,000 shares sold, 3,833,650 shares were sold by the Company and 2,261,350 shares by certain selling shareholders. Net proceeds to the Company were approximately $47.9 million after deduction of the underwriting discount and other expenses of the offering.

NOTE 6 -- SHAREHOLDERS' EQUITY

Effective March 5, 1997, the Company changed the stated par value of all common and preferred shares of Euronet N.V. from $0.10 to $0.14. Euronet N.V. then effected a seven-for-one stock split which became effective on March 5, 1997, thus reducing the par value of such shares to $0.02. This change in par value was retroactively taken into account for common and preferred shares of Euronet N.V. as at June 30, 1996. Subsequently, effective March 6, 1997, the holders of all of the preferred shares of Euronet N.V. converted all of such preferred shares into common shares of Euronet N.V.

The increase in par value from $0.01 to $0.02 and the seven-for-one stock split have been given retroactive treatment to June 30, 1996.

Pursuant to an Exchange Agreement which became effective on March 6, 1997, entered into between Euronet Services Inc. and the shareholders and option holders of Euronet N.V., 10,296,076 shares of common stock in Euronet Services Inc. were issued to the shareholders of Euronet N.V. in exchange for all the common shares of Euronet N.V.  In addition, options to acquire 3,113,355 shares of common stock of Euronet Services Inc. were issued to the holders of options to acquire 3,113,355 common shares of Euronet N.V. and awards with respect to 800,520 shares of common stock of Euronet Services Inc. were issued to the holders of awards with respect to 800,520 preferred shares of Euronet N.V. in exchange for all such awards.

On February 3, 1997, the Company signed a Subscription Agreement with General Electric Capital Corporation ("GE Capital") under which GE Capital purchased preferred stock of Euronet N.V. for an aggregate purchase price of $3 million.  Pursuant to the "claw back" option of this agreement, on June 16, 1997, the Company repurchased 292,607 shares of Euronet Services Inc. at the original par value.

ITEM 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL OVERVIEW

Euronet Services Inc. and its subsidiaries (collectively, "Euronet" or the "Company") are operators of independent shared automatic teller machine (ATM) networks and are service providers to banks and financial institutions. Euronet serves a number of banks by providing ATMs that accept cards with international logos such as VISA, American Express and Mastercard and proprietary bank cards issued by member banks.  The subsidiaries of Euronet are: Euronet-Bank 24 Rt and SatComNet Kft (Hungary), Bankomat 24/Euronet Sp. z o.o. (Poland), Euronet Holding N.V. (Netherland Antilles), Euronet Services GmbH (Germany) and EFT-Usluge d o.o. (Croatia).

The Company was formed and established its first office in Budapest in July 1994.  In May 1995, the Company opened its second office in Warsaw.  To date, the Company has devoted substantially all of its resources to establishing its ATM network through the acquisition and installation of ATMs and computers and software for its processing center pursuant to capital leases and through the marketing of its services to banks and international card organizations in Hungary, Poland, Germany, Croatia and other regions in Central Europe.

The Company installed its first ATM in Hungary in June 1995, and at the end of 1996 the Company had 166 ATMs installed. An additional 216 ATMs were installed during the first six months of 1997 and at July 31, 1997 the Company's ATM network consisted of 412 ATMs.  Euronet's network consisted of 174 ATMs in Poland, 206 ATMs in Hungary and 2 ATMs in Germany at June 30, 1996. With the expansion of operations, the Company has increased the number of its employees in Hungary from 35 at

June 30, 1996 and 36 at December 31, 1996 to 54 at June 30, 1997. In Poland, the Company increased the number of its employees from 15 at June 30, 1996 and 21 at December 31, 1996 to 40 at June 30, 1997. The Company's expansion of its network infrastructure and administrative and marketing capabilities has resulted in increased expenditures. Further planned expansion will continue to result in substantial increases in general operating expenses as well as expenses related to the acquisition and installation of ATMs.

The Company has derived substantially all of its revenues from ATM transaction fees since inception. The Company receives a fee from the card issuing banks or international card organizations for ATM transactions processed on its ATMs. As the Company continues to focus on expanding its network and installing additional ATMs, the Company expects that transaction fees will continue to account for substantially all of its revenues for the foreseeable future. The Company recently began to sell advertising on its network by putting clients' advertisements on its ATMs and also began generating revenues from ATM network management services that it offers to banks that own proprietary ATM networks. Although revenues from these additional sources have been insignificant to date, the Company believes that they will increase.

RESULTS OF OPERATIONS

QUARTER ENDED JUNE 30, 1997 COMPARED TO THE QUARTER ENDED JUNE 30, 1996 AND SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1996.

Revenues. Total revenues increased to $1,061,000 for the quarter ended June 30, 1997 from $170,000 for the quarter ended June 30, 1996 and to $1,856,000 for the six months ended June 30, 1997 from $270,000 for the six months ended June 30, 1996. These increases were due primarily to the significant increase in transaction fees resulting from both the increased number of ATMs operated by the Company during the periods and the greater number of credit and debit card holders who were able to use their cards at Euronet's ATMs. Transaction fee revenue represented approximately 86% of total revenues for the quarter ended June 30, 1997 and 87% of total revenues for the six months ended June 30, 1997. This compares to 95% for the year ended December 31, 1996. Approximately 87% of transaction fees in the quarter ended June 30, 1997 were attributable to cash withdrawals, and 13% were attributable to balance inquiries and transactions not completed because authorization was not given by the relevant card issuer.

Operating expenses. Total operating expenses increased by $1.6 million to $2.9 million for the quarter ended June 30, 1997 from $1.3 million for the quarter ended June 30, 1996. For the six months ended June 30, 1997, total operating expenses increased by $2.8 million to $4.7 million, from $1.9 for the six months ended June 30, 1996. This increase was due primarily to costs associated with the installation of significant numbers of ATMs during the periods and expansion of the Company's operations during the period.

ATM operating costs, which consists primarily of ATM site rentals, depreciation, installation, maintenance, cash delivery and telecommunications, increased $666,000 to $965,000 for the quarter ended June 30, 1997 from $299,000 for the quarter ended June 30, 1996. For the six months ended June 30, 1997 operating costs increased $1.1 million to $1.7 million from $531,000 for the six months ended June 30, 1996. The percentage of ATM operating costs to total expenses for quarter ended June 30, 1997 increased to 33% as compared to 23% for the same period in 1996. For the six months ended June 30, 1997 the percentage of ATM operating costs to total expenses was 35%, compared to 27% for the same period in 1996. The increase in ATM operating costs was primarily attributable to costs associated with operating an increased number of ATMs in the network during the period. The number of ATMs in the network increased from 68 at June 30, 1996 to 382 at June 30, 1997.

Other operating expenses, which includes salaries, professional fees and other general and administrative expenses, increased $916,000 to $1.9 million in the quarter ended June 30, 1997 from $1.0 million for the same period in 1996. For the six months ended June 30, 1997 other operating expenses increased $1.6 million to $3.0 million from $1.4 million for the same period in 1996. This increase was due primarily to the expansion of the Company's operations during the period in current and new markets, including the increase in the number of employees in the Company. In Poland the number of employees increased from 15 at June 30, 1996 to 40 at June 30, 1997. In Hungary, the number of employees increased from 35 to 54 during the same period. Euronet also employed 6 individuals in Germany and Croatia who were not employed by the Company at June 30, 1996. The percentage of other operating costs to total expenses for quarter ended June 30, 1997 decreased to 67% as compared to 77% for the same period in 1996. For the six months ended June 30, 1997 the percentage of other operating costs to total expenses was 65%, compared to 73% for the same period in 1996.

Other income/expense. Interest income increased $511,000 to $581,000 for the quarter ended June 30, 1997 from $70,000 for the quarter ended June 30, 1996. Interest income increased $585,000 to $656,000 for the six months ended June 30, 1997 from $71,000 for the six months ended June 30, 1996. The increase was due to larger amounts held in interest bearing securities primarily as a result of investing the proceeds of the public offering. See "--Liquidity and Capital Resources".

Interest expense, relating principally to capital leases of ATMs and the Company's computer systems, increased $108,000 to $138,000 for the quarter ended June 30, 1997 from $30,000 for the quarter ended June 30, 1996. Interest expense increased $194,000 to $249,000 for the six months ended June 30, 1997 from $55,000 for the six months ended June 30, 1996. This increase was due primarily to the increase in capital lease obligations for ATMs outstanding during the period.

Net loss. The Company's net loss increased $0.6 million to $1.6 million, or $(0.09) per share, during the quarter ended June 30, 1997 from $1.0 million, or $(0.07) per share, for the quarter ended June 30, 1996 as a result of the factors previously discussed.

LIQUIDITY AND CAPITAL RESOURCES

On March 7, 1997, the Company consummated an initial public offering of 6,095,000 shares of common stock at the price of $13.50 per share. Of the 6,095,000 shares sold, 3,833,650 shares were sold by the Company and 2,261,350 shares by certain selling shareholders. Net proceeds to the Company were approximately $47.9 million after deduction of the underwriting discount and other expenses of the offering. The Company has been using, and intends to continue using, the proceeds to cover expenditures relating to the expansion and operation of its ATM network and the provision of ATM management services. Since its inception, the Company has sustained negative cash flows from operations and has financed its operations and capital expenditures primarily through private placements of equity securities and through equipment lease financing.

The Company had $48.1 million of working capital at June 30, 1997, including $20.4 million of cash and cash equivalents and $27.8 million of investment securities. Significantly all of the cash and cash equivalents and investment securities resulted from the net proceeds from the offering. Cash has been, and the Company contemplates that it will continue to be, invested in interest bearing, investment grade securities pending use in the Company's business.

The Company leases the majority of its ATMs under three principal capital lease arrangements. The lease arrangements expire in July 1999, January 2001 and June 2002 and bear interest at 15%, 11% and 8%, respectively. As of June 30, 1997 the Company owed approximately $9.7 million under such capital lease arrangements. The amount owed by the Company under such lease agreements is expected to increase significantly as the Company continues to lease increased numbers of ATMs in pursuit of its business strategy.

The Company anticipates that its existing capital resources will be adequate to satisfy its capital requirements, capital lease payment obligations and other requirements, including possible acquisitions, until the Company begins to generate sufficient cash flows to fund its operations. There can be no assurance, however, that such resources will, in fact, be sufficient or that the Company will achieve or sustain profitability or generate significant revenues in the future. It is possible that the Company may seek additional equity or debt financing in the future.

## FORWARD LOOKING STATEMENTS

Statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this quarterly report that are not descriptions of historical fact may be forward looking statements that are subject to risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors, including but not limited to, the Company's dependence on the maintenance of its contracts with banks and international card organizations, dependence on key personnel, dependence on ATM transaction fees, competition, and political, economic and legal risks in the markets in which the Company operates.

## DISCLOSURES ABOUT NEW ACCOUNTING STANDARDS

SFAS No. 128, "Earnings Per Share", was issued in February 1997. This Statement simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, "Earnings Per Share", and makes them more comparable to international EPS standards. Statement 128 replaces the presentation of primary EPS with a presentation of basic EPS. In addition, the Statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. This Statement is required to be adopted for the fiscal year ending December 31, 1997. The Company has not yet assessed the impact of Statement 128 on its financial statements.

## INFLATION

Since the fall of Communist rule, both Hungary and Poland have experienced high levels of inflation and significant fluctuation in the exchange rate for their currencies. Although revenues generally are received by the Company in local currency, primarily Hungarian forints and Polish zlotys, the Company's Card Acceptance Agreements and agreements relating to the provision of ATM management services generally provide for fees that are denominated in U.S. dollars or inflation adjusted. A significant portion of the Company's expenditures, including costs associated with the acquisition of ATMs and executive salaries, are made in or are denominated in U.S. dollars. A substantial portion of the assets and liabilities of the Company are also denominated in U.S. dollars, including fixed assets, shareholders' equity and capital lease obligations. The Company attempts to match local currency receivables and payables. Hence, the amount of unmatched assets and liabilities giving rise to foreign exchange gains and losses is relatively limited. Due to the factors mentioned above, the Company does not believe that inflation will have a significant effect on results of operations or financial condition.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
None

ITEM 2. CHANGES IN SECURITIES
None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None

ITEM 4. SUBMISSIONS OF MATTERS TO VOTE OF SECURITY HOLDERS
None

ITEM 5. OTHER INFORMATION
None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
(a) Exhibits

| EXHIBIT NO. | DESCRIPTION OF DOCUMENT |
|---|---|
| 11 | Earnings Per Share |
| 27 | Financial Data Schedule |

## 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 14, 1997      By: /S/ MICHAEL J. BROWN
---------------------------
Chief Executive Officer

August 14, 1997      By: /S/ BRUCE S. COLWILL
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Chief Financial Officer
(Principle Financial and Accounting Officer)

EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION OF DOCUMENT |
| --- | --- |
| 11 | Earnings Per Share |
| 27 | Financial Data Schedule |

EXHIBIT 11

COMPUTATION OF PRIMARY EARNINGS PER ORDINARY SHARE
AND ORDINARY SHARE EQUIVALENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | THREE MONTHS ENDED JUNE 30, 1997 (UNAUDITED) |
|---|---|
| Earnings per ordinary share and ordinary share equivalents | |
| Primary | |
| Weighted average ordinary shares outstanding | 15,138 |
| Average ordinary share options outstanding (net of repurchased shares under the treasury stock method) | 2,400 |
| Weighted average number of ordinary shares and ordinary share equivalents outstanding | 17,538 |
| Net loss | $(1,627) |
| Primary loss per ordinary share and ordinary share equivalent | $ (0.09) |

5
1,000

6-MOS
DEC-31-1997
JAN-01-1997
JUN-30-1997
23,903
27,811
455
0
0
53,604
15,283
1,171
68,342
5,554
8,040
300
0
0
54,380
68,342
0
1,856
0
4,677
293
0
249
(2,571)
(129)
(2,442)
0
0
0
(2,442)
(0.15)
0