LEXINGTON CORPORATE PROPERTIES TRUST
Form S-3
December 31, 2002

As filed with the Securities and Exchange Commission on December 31, 2002
Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LEXINGTON CORPORATE PROPERTIES TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland	13-3717318
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

355 Lexington Avenue
New York, NY 10017
(212) 692-7260
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

T. Wilson Eglin	With copies to:
President and Chief Operating Officer	Barry A. Brooks, Esq.
Lexington Corporate Properties Trust	Mark Schonberger, Esq.
355 Lexington Avenue	Paul, Hastings, Janofsky & Walker LLP
New York, NY 10017	75 East 55th Street
(212) 692-7260	New York, New York 10022
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)	(212) 318-6000

Approximate date of commencement of proposed sale to the public:
From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. |_|

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. |X|

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. |_|

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. |_|

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to Be Registered	Proposed Maximum Offering Price Per Unit (1)	Prop Ag Offer
Common shares of beneficial interest, par value $.0001 per share..................	17,901 shares	$15.97	$28

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low reported sales prices for the registrant's common shares of beneficial interest, as reported on the New York Stock Exchange on December 27, 2002, which was within five business days prior to the filing of this registration statement.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant will file a further amendment which specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement will become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 31, 2002

Prospectus

17,901 Shares

LEXINGTON CORPORATE PROPERTIES TRUST

Common Shares Of Beneficial Interest

We are Lexington Corporate Properties Trust, a self-managed and self-administered real estate investment trust that acquires, owns and manages a geographically diversified portfolio of net leased office, industrial and retail properties. Our executive offices are located at 355 Lexington Avenue, New York, New York 10017, and our telephone number is (212) 692-7260.

This prospectus relates to the possible offer up to 17,901 common shares, which we may issue in exchange for the redemption of an equal number of units of limited partnership, or OP units, issued by our controlled operating partnership subsidiary, Lepercq Corporate Income Fund, L.P. The OP units were issued on August 1, 1995 and October 14, 1999, and are redeemable on and after January 1, 2003, as more fully described in this prospectus. We will not receive proceeds from any issuance of common shares in exchange for OP units. We are not being assisted by any underwriter in connection with any issuance of common shares in exchange for OP units.

We are registering the common shares being offered by this prospectus in order to permit the recipient thereof to sell such shares without restriction, in the open market or otherwise. However, the registration of such common shares does not necessarily mean that any of the OP units will be submitted for redemption or that any of the common shares to be issued upon such redemption will be offered or sold by the recipient thereof.

Our common shares trade on the New York Stock Exchange under the symbol "LXP." On December 27, 2002, the last reported sale price of our common shares, as reported on the New York Stock Exchange, was $15.95 per share.

YOU SHOULD BE AWARE THAT AN INVESTMENT IN OUR COMMON SHARES INVOLVES VARIOUS RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 1 OF THIS PROSPECTUS.

The date of this prospectus is __________________.

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ABOUT THIS PROSPECTUS

All references to "the Company," "we," "our" and "us" in this prospectus mean Lexington Corporate Properties Trust and all entities owned or controlled by us except where it is made clear that the term means only the parent company. All references to "the Operating Partnership" in this prospectus mean our controlled subsidiary, Lepercq Corporate Income Fund, L.P. The term "you" refers to a prospective investor.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any materials that we have filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We file information electronically with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is http://www.sec.gov.

The SEC allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, which is commonly referred to as the Exchange Act:

1. The Company's Annual Report on Form 10-K (Commission File No. 1-12386) for the year ended December 31, 2001, filed on February 21, 2002.

2. The Company's 2002 Proxy Statement on Schedule 14-A (Commission File No. 1-12386), filed on April 15, 2002.

3. The Company's Quarterly Report on Form 10-Q (Commission File No. 1-12386) for the quarter ended March 31, 2002, filed on May 14, 2002.

4. The Company's Quarterly Report on Form 10-Q (Commission File No. 1-12386) for the quarter ended June 30, 2002, filed on August 14, 2002.

5. The Company's Current Report on Form 8-K (Commission File No. 1-12386), filed on September 16, 2002.

6. The Company's Quarterly Report on Form 10-Q (Commission File No. 1-12386) for the quarter ended September 30, 2002, filed on November 13, 2002.

7. The Company's Current Report on Form 8-K (Commission File No. 1-12386), filed on December 24, 2002.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Patrick Carroll, Chief Financial Officer
Lexington Corporate Properties Trust

355 Lexington Avenue
New York, New York 10017
(212) 692-7260

This prospectus is part of a registration statement we filed with the SEC. You should rely only on the information or representations provided in this prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents.

CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING INFORMATION

Certain information both included and incorporated by reference in this prospectus may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (which is commonly referred to as the Securities Act), or Section 21E of the Exchange Act, and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend," "project," or the negative of these words or other similar words or terms. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate market specifically, legislative/regulatory changes including changes to laws governing the taxation of REITs, availability of debt and equity capital, interest rates, competition, supply and demand for properties in our current and proposed market areas, policies and guidelines applicable to REITs, and the other factors described in the section entitled "RISK FACTORS" beginning on page 1 of this prospectus. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference in this prospectus.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in or incorporated by reference in this prospectus may not occur and our actual results could differ materially from those anticipated or implied in the forward-looking statements.

RISK FACTORS

In evaluating an investment in our common shares, you should carefully consider the following factors, in addition to other information set forth or incorporated by reference in this prospectus. See the section entitled "WHERE YOU CAN FIND MORE INFORMATION" on page ii of this prospectus.

Risks Involved in Single Tenant Leases. We focus our acquisition activities on real properties that are net leased to single tenants. Therefore, the financial failure of, or other default by, a single tenant resulting in the termination of a lease may cause a significant reduction in the operating cash flow generated by the property leased to that tenant and might decrease the value of that property.

Dependence on Major Tenants. Revenues from several of our tenants and/or their guarantors constitute a significant percentage of our rental revenues. As of September 30, 2002, our fifteen largest tenants/guarantors, which occupy thirty-one properties, represented 52.5% of our rental revenue (including proportionate share of non-consolidated investees) for the preceding nine months, with two tenants representing 16.0% of our rental revenue. The default, financial distress or bankruptcy of any of the tenants of these properties could cause interruptions in the receipt of lease revenues from these tenants and/or result in vacancies, which would reduce our revenues and increase operating costs until the affected property is re-let, and could decrease the ultimate sale value of that property. Upon the expiration of the leases that are currently in place with respect to these properties, we may not be able to re-lease the vacant property at a comparable lease rate or without incurring additional expenditures in connection with the re-leasing.

Kmart Corporation, our largest tenant based upon rental revenues, filed for Chapter 11 bankruptcy protection on January 22, 2002. Kmart leases a 1.7 million square foot distribution facility in Warren, Ohio. We have no retail properties leased to Kmart. The Kmart lease expires on September 30, 2007. As of the date of this prospectus, current annual net cash rents are $9.4 million and annual net rents on a straight-line basis are $8.9 million, which represented approximately 8.1% of our rental revenue for the nine months ended September 30, 2002, including our proportionate share of rental revenue from non-consolidated entities. Rent is payable in arrears on April 1 and October 1. At September 30, 2002, we had $8.9 million in accounts receivable from Kmart, including $2.6 million in pre-bankruptcy petition rent for the period from October 1, 2001 through January 21, 2002, plus $2.1 million in straight line rents receivable. On October 1, 2002, Kmart made its required $4.2 million semi-annual rental payment. Under applicable bankruptcy law, Kmart may elect to reject the lease, in which event the lease would be deemed to have been breached as of the petition date. We would then have an unsecured claim for any unpaid pre-bankruptcy petition rent and an unsecured claim for any damages resulting from the breach of the lease, including rent for the period from the rejection date through the remainder of the lease term, subject to a cap under applicable bankruptcy law. We may not be able to collect all or any portion of these unsecured claims. In addition, we may not be able to collect all or any portion of Kmart's rental and other obligations to us, including rent for the period from the bankruptcy filing date through the rejection date if Kmart becomes insolvent prior to the satisfaction of any such obligations. Kmart also could elect to assume the lease, at which time all accrued but unpaid pre-bankruptcy petition rent would be payable to us and the accrued straight-lined rent would be realized over the remaining lease term. Alternatively, Kmart may seek to renegotiate the lease terms, including a reduction in the amount of pre-bankruptcy petition rent payable, the amount of future rent and the term of the lease. The bankruptcy court has granted Kmart's motion to extend the date for Kmart's determination as to whether it will assume or reject the lease until July 31, 2003. Until a determination is made as to the assumption or rejection of the lease, it is unlikely that we will receive unpaid pre-bankruptcy petition rent.

The Kmart facility is subject to non-recourse mortgage debt with an outstanding balance of $25.6 million as of the date of this prospectus, which fully amortizes by maturity on October 1, 2007. The property is also subject to an interest-only second mortgage loan, which is a recourse obligation to us, with a variable interest rate of 90-day LIBOR plus 3.75% and an outstanding principal balance of $12.5 million as of the date of this prospectus. Annual debt service on the non-recourse first mortgage note is $6.2 million, and the next debt service payment is due April 1, 2003. There can be no assurance that Kmart will assume the lease at the current rate for the remainder of the existing term. If Kmart rejects the lease in bankruptcy, it would result in a significant decrease in our rental revenue, funds from operations and funds available for distribution to shareholders, and we cannot predict if or when we would be able to re-lease the property or negotiate the terms of any new lease. If we are unable to re-lease

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promptly or if any new rental rates are significantly lower than Kmart's current rent, our revenue, funds from operations and funds available for distribution to shareholders would decrease significantly. We would also risk loss of the property to lender foreclosure in the event we do not continue to make all required debt service payments with respect to the mortgage debt on the property. In addition, a default by us on the first mortgage would also be considered a default of the second mortgage whereby the entire $12.5 million second mortgage plus a 4% prepayment penalty would be immediately payable to the lender. The prepayment penalty decreases by 1% each March 8th until March 8, 2007, after which no prepayment penalty would be due.

Leverage. We have incurred, and expect to continue to incur, indebtedness (secured and unsecured) in furtherance of our activities. Neither our Declaration of Trust nor any policy statement formally adopted by our Board of Trustees limits either the total amount of indebtedness or the specified percentage of indebtedness that we may incur. Accordingly, we could become more highly leveraged, resulting in increased risk of default on our obligations and in an increase in debt service requirements which could adversely affect our financial condition and results of operations and our ability to pay distributions.

Risks Relating to Interest Rate Increases. We have exposure to market risks relating to increases in interest rates due to our variable rate debt. Specifically, we currently maintain an unsecured credit facility, a secured second mortgage on a property, and four mortgage notes encumbering four properties for which interest accrues at variable rates. An increase in interest rates may increase our costs of borrowing on existing variable rate indebtedness leading to a reduction in our net income.

As of September 30, 2002, our variable rate indebtedness represented 10.2% of consolidated mortgages payable and notes payable and had a weighted average interest rate of 4.7%. The level of our variable rate indebtedness, along with the interest rate associated with such variable rate indebtedness, may change in the future and may materially affect our interest costs and net income. In addition, the interest costs which we incur in connection with our fixed rate indebtedness may increase if we are required to refinance our fixed rate indebtedness at higher interest rates.

Risks Associated with Refinancing. A significant number of our properties are subject to mortgages with balloon payments due at maturity. As of September 30, 2002, the scheduled balloon payments for the remainder of 2002 and the next four calendar years are as follows:

- 2002- $0;
- 2003- $0;
- 2004- $17.1 million;
- 2005- $80.9 million; and
- 2006- $0.

Our ability to make the remaining balloon payments will depend upon our ability either to refinance the related mortgage or to sell the related property. Our ability to accomplish these goals will be affected by various factors existing at the relevant time, such as the state of the national and regional economies, local real estate conditions, available mortgage rates, our equity in the mortgaged properties, our financial condition, the operating history of the mortgaged properties and tax laws.

Uncertainties Relating to Lease Renewals and Re-letting of Space. Upon expiration of current leases for space located in our properties, we may not be able to re-let all or a portion of that space, or the terms of re-letting, including the cost of concessions to tenants, may be less favorable to us than current lease terms. If we are unable to re-let promptly all or a substantial portion of the space located in our properties or if the rental rates we receive upon re-letting are significantly lower than current rates, our net income and ability to make expected distributions to our shareholders will be adversely affected. There can be no assurance that we will be able to retain tenants in any of our properties upon the expiration of their leases. As of September 30, 2002, our scheduled lease maturities for the remainder of 2002 and the next four years are as follows:

	Number of Leases	Annual Rent ($000)
2002............................	--	$ --
2003............................	1	1,900
2004............................	1	337
2005............................	7	8,073
2006............................	14	14,077
Total.....................	23	$ 24,387

Defaults on Cross-Collateralized Properties. As of September 30, 2002, seventeen of our properties are part of a segregated pool of assets with respect to which commercial mortgage pass-through certificates were issued, and two mortgages on two properties in Canton, OH and Spartansburg, SC are cross-collateralized. To the extent that any of our properties is cross-collateralized, any default by us under the mortgage relating to one property will result in a default under the financing arrangements relating to any other property that also provides security for that mortgage note.

Possible Liability Relating to Environmental Matters. Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, as an owner of real property, we may be liable for the costs of removal or remediation of hazardous or toxic substances at, on, in or under our property, as well as other potential costs relating to hazardous or toxic substances, including government fines and penalties and damages for injuries to persons and adjacent property. These laws may impose liability without regard to whether we knew of, or were responsible for, the presence or disposal of those substances. This liability may be imposed on us in connection with the activities of an operator of, or tenant at, the property. The cost of any required remediation, removal, fines or personal or property damages and our liability therefor could exceed the value of the property and/or our aggregate assets. In addition, the presence of those substances, or the failure to properly dispose of or remove those substances, may adversely affect our ability to sell or rent that property or to borrow using that property as collateral, which, in turn, would reduce our revenues and ability to make distributions.

A property can also be adversely affected either through physical contamination or by virtue of an adverse effect upon value attributable to the migration of hazardous or toxic substances, or other contaminants that have or may have emanated from other properties. Although our tenants are primarily responsible for any environmental damages and claims related to the leased premises, in the event of the bankruptcy or inability of a tenant to satisfy any obligations with respect to the property leased to that tenant, we may be required to satisfy such obligations. In addition, we may be held directly liable for any such damages or claims irrespective of the provisions of any lease.

From time to time, in connection with the conduct of our business, and prior to the acquisition of any property from a third party or as required by our financing sources, we authorize the preparation of Phase I environmental reports and, when necessary, Phase II environmental reports, with respect to our properties. Based upon these environmental reports and our ongoing review of our properties, as of the date of this prospectus, we are not aware of any environmental condition with respect to any of our properties that we believe would be reasonably likely to have a material adverse effect on us. There can be no assurance, however, that the environmental reports will reveal all environmental conditions at our properties or that the following will not expose us to material liability in the future:

- the discovery of previously unknown environmental conditions;
- changes in law;
- activities of tenants; or
- activities relating to properties in the vicinity of our properties.

Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures or may otherwise adversely affect the operations of our tenants, which could adversely affect our financial condition or results of operations.

Uninsured Loss. We carry comprehensive liability, fire, extended coverage and rent loss insurance on most of our properties, with policy specifications and insured limits customarily carried for similar properties. However, with respect to those properties where the leases do not provide for abatement of rent under any circumstances, we generally do not maintain rent loss insurance. In addition, there are certain types of losses, such as losses resulting from wars or acts of God, that generally are not insured because they are either uninsurable or not economically insurable. Should an uninsured loss or a loss in excess of insured limits occur, we could lose capital invested in a property, as well as the anticipated future revenues from a property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any loss of these types would adversely affect our financial condition.

Competition. There are numerous commercial developers, real estate companies, financial institutions and other investors whose financial resources are greater than ours, which compete with us in seeking properties for acquisition and tenants who will lease space in our properties. Due to our focus on net lease properties located throughout the United States, and because most competitors are locally and/or regionally focused, we do not encounter the same competitors in each region of the United States. Our competitors include other REITs, financial institutions, insurance companies, pension funds, private companies and individuals. This competition may result in a higher cost for properties that we wish to purchase.

Failure to Qualify as a REIT. We believe that we have met the requirements for qualification as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 1993, and we intend to continue to meet these requirements in the future. However, qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended, which is generally referred to as the Code, for which there are only limited judicial or administrative interpretations. No assurance can be given that we have qualified or will remain qualified as a REIT. The Code provisions and income tax regulations applicable to REITs are more complex than those applicable to corporations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to continue to qualify as a REIT. In addition, no assurance can be given that legislation, regulations, administrative interpretations or court decisions will not significantly change the requirements for qualification as a REIT or the federal income tax consequences of such qualification. If we do not qualify as a REIT, we would not be allowed a deduction for distributions to shareholders in computing our income. In addition, our income would be subject to tax at the regular corporate rates. We also could be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. Cash available for distribution to our shareholders would be significantly reduced for each year in which we do not qualify as a REIT. In that event, we would not be required to continue to make distributions. Although we currently intend to continue to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us, without the consent of the shareholders, to revoke the REIT election or to otherwise take action that would result in disqualification.

Distribution Requirements Imposed by Law Limit Our Flexibility. To maintain our status as a REIT for federal income tax purposes, we are generally required to distribute to our shareholders at least 90% of our taxable income for that calendar year. Our taxable income is determined without regard to any dividends paid deduction and by excluding net capital gains. We intend to continue to make distributions to our shareholders to comply with the distribution requirements of the Code and to reduce exposure to federal income and nondeductible excise taxes. Differences in timing between the receipt of income and the payment of expenses in determining our income and the effect of required debt amortization payments could require us to borrow funds on a short-term basis in order to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

Interest Rate Fluctuations. It is likely that the public valuation of our common shares will be based primarily on the earnings that we derive from rental income with respect to our properties and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common shares. For instance, if interest rates rise, it is likely that the market price of our common shares will decrease because potential investors may require a higher dividend yield on our common shares as market rates on interest-bearing securities, such as bonds, rise.

Inability to Carry Out Growth Strategy. Our growth strategy is based on the acquisition and development of additional properties, including acquisitions through co-investment programs. In the context of our business plan, "development" generally means an expansion or renovation of an existing property or the acquisition of a newly constructed property. We typically provide a developer with a commitment to acquire a property upon completion of construction. Our plan to grow through the acquisition and development of new properties could be adversely affected by trends in the real estate and financing businesses. The consummation of any future acquisitions will be subject to satisfactory completion of our extensive valuation analysis and due diligence review, and negotiation of definitive documentation. We cannot be sure that we will be able to implement our strategy because we may have difficulty finding new properties, negotiating with new or existing tenants or securing acceptable financing. If we are unable to carry out our strategy, our financial condition and results of operations could be adversely affected.

Acquisitions of additional properties entail the risk that investments will fail to perform in accordance with expectations, including operating and leasing expectations. Redevelopment and new project development are subject to numerous risks, including risks of construction delays, cost overruns or force majeure that may increase project costs, new project commencement risks such as the receipt of zoning, occupancy and other required governmental approvals and permits, and the incurrence of development costs in connection with projects that are not pursued to completion.

We anticipate that some of our acquisitions and developments will be financed using the proceeds of periodic equity or debt offerings, lines of credit or other forms of secured or unsecured financing that will result in a risk that permanent financing for newly acquired projects might not be available or would be available only on disadvantageous terms. If permanent debt or equity financing is not available on acceptable terms to refinance acquisitions undertaken without permanent financing, further acquisitions may be curtailed or cash available for distribution may be adversely affected.

Dilution of Common Shares. Our future growth will depend in part on our ability to raise additional capital. If we raise additional capital through the issuance of equity securities, the interests of holders of our common shares, including the common shares being offered by this prospectus, could be diluted. Likewise, our Board of Trustees is authorized to cause us to issue preferred shares in one or more series, the holders of which would be entitled to the dividends and voting and other rights that our Board of Trustees determines, and which could be senior to our common shares. Accordingly, our Board of Trustees may authorize the issuance of preferred shares with dividends and voting and other rights that could be dilutive to or otherwise adversely affect the interests of holders of our common shares.

Ownership Limitations. For us to qualify as a REIT under the Code, among other things, not more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (defined in the Code to include certain entities) during the last half of a taxable year, and such shares of our capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year (in each case, other than the first such year). Our Declaration of Trust includes certain restrictions regarding transfers of shares of our capital stock and Ownership Limits that are intended to assist us in satisfying these limitations. These restrictions and limits may not be adequate in all cases, however, to prevent the transfer of shares of our capital stock in violation of the Ownership Limitations. The Ownership Limit discussed above may have the effect of delaying, deferring or preventing someone from taking control of our company, even though a change of control could involve a premium price for our common shares or otherwise be in your best interest.

Restrictions on a Potential Change of Control. Our Board of Trustees is authorized by our Declaration of Trust to establish and issue one or more series of preferred shares without shareholder approval. As of the date of this prospectus, we have established one series of preferred shares, but no shares of this series are currently outstanding. The establishment of this series or a future series of preferred shares could make more difficult a change of control of our company that could be in your best interest.

In addition, we have entered into employment agreements with six of our executive officers which provide that, upon the occurrence of a change in control of our company (including a change in ownership of more than fifty percent of the total combined voting power of our outstanding securities, the sale of all or substantially all of our assets, dissolution of our company, the acquisition, except from us, of 20% or more of our voting shares or a change in a majority of our Board of Trustees), those executive officers would be entitled to severance benefits based on

their current annual base salaries and recent annual bonuses, as defined in the employment agreements. The provisions of these agreements could deter a change of control of our company that could be in your best interest.

Concentration Of Ownership By Certain Investor. As of November 30, 2002, E. Robert Roskind, the Chairman of our Board of Trustees and our Co-Chief Executive Officer, owned or controlled, including through trusts with respect to which he disclaims beneficial ownership, 482,555 common shares, 1,536,848 OP units which are convertible into common shares, and total options to purchase 129,419 common shares representing, in the aggregate, 6.8% of our total outstanding voting securities on a diluted basis on such date. A significant concentration of ownership may allow an investor to exert a greater influence over our management and affairs, and may have the effect of delaying, deferring or preventing a change of control, may discourage bids for our common shares at a premium over the market price, and may adversely affect the market price of our common shares.

Limited Control over Joint Venture Investments. Our joint venture investments may involve risks not otherwise present for investments made solely by us, including the possibility that our co-venturer might become bankrupt, that our co-venturer might at any time have different interests or goals than we do, and that our co-venturer may take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT. Other risks of joint venture investments include impasse on decisions, such as a sale, because neither we nor our co-venturer would have full control over the joint venture. Also, there is no limitation under our organizational documents as to the amount of funds that may be invested in joint ventures. Our credit facility restricts the amount of capital that we can invest in joint ventures.

Under the terms of our joint venture with the Comptroller of the State of New York, as Trustee of the Common Retirement Fund (CRF), we are required to first offer to the joint venture all of our opportunities to acquire office and industrial properties requiring a minimum investment of $10 million which are net leased primarily to investment grade tenants for a minimum term of ten years, are available for immediate delivery and satisfy other specified investment criteria. Only if CRF elects not to approve the joint venture's pursuit of an acquisition opportunity may we pursue the opportunity directly. As a result, we may not be able to make attractive acquisitions directly and may only receive a minority interest in such acquisitions through our minority interest in this venture.

Conflicts of Interest with Respect to Sales and Refinancings. Two of our trustees and officers own OP units and, as a result, may face different and more adverse tax consequences than you will if we sell, or reduce our mortgage indebtedness on, any of our properties. Those individuals may, therefore, have different objectives than you regarding the appropriate pricing and timing of any sale of our properties or reduction of mortgage debt. Accordingly, there may be instances in which we may not sell a property or pay down the debt on a property even though doing so would be advantageous to you.

Limitations on Sale of Certain Properties. We have agreed with the sellers of five of our properties not to sell those properties for a period of time in a taxable transaction, subject to certain exceptions. We may enter into similar agreements in connection with future property acquisitions. These agreements generally provide that we may dispose of these properties in transactions that qualify as tax-free exchanges under Section 1031 of the Code. Therefore, we may be precluded from selling these properties other than in transactions that would qualify as tax-free exchanges for federal income tax purposes, even if it would be in your best interest to do so. These restrictions expire on January 1, 2003 for four properties with an aggregate net book value of $49.5 million at September 30, 2002 and for one property on January 1, 2004 with a net book value of $4.9 million at September 30, 2002.

Our Ability To Change Our Portfolio Is Limited Because Real Estate Investments Are Illiquid. Equity investments in real estate are relatively illiquid and, therefore, our ability to change our portfolio promptly in response to changed conditions will be limited. Our Board of Trustees may establish investment criteria or limitations as it deems appropriate, but currently does not limit the number of properties in which we may seek to invest or on the concentration of investments in any one geographic region. We could change our investment, disposition and financing policies without a vote of our shareholders.

Our Board of Trustees May Change Our Investment Policy Without Shareholders' Approval. Subject to our fundamental investment policy to maintain our qualification as a REIT, our Board of Trustees will determine our investment and financing policies, our growth strategy and our debt, capitalization, distribution, acquisition,

disposition and operating policies. Although our Board of Trustees has no present intention to revise or amend these strategies and policies, it may do so at any time without a vote by our shareholders. Accordingly, our shareholders' control over changes in our strategies and policies is limited to the election of trustees, and changes made by our Board of Trustees may not serve the interests of our shareholders and could adversely affect our financial condition or results of operations, including our ability to distribute cash to shareholders or to qualify as a REIT.

Limits on Ownership of Our Common Shares. Actual or constructive ownership of our common shares in excess of the share Ownership Limits contained in our Declaration of Trust would cause the violative transfer or ownership to be void or cause the shares to be transferred to a charitable trust and then sold to a person or entity who can own the shares without violating these limits. As a result, if a violative transfer were made, the recipient of the shares would not acquire any economic or voting rights attributable to the transferred shares. Additionally, the constructive ownership rules for these limits are complex and groups of related individuals or entities may be deemed a single owner and consequently in violation of the share Ownership Limits. We recommend that you read "RESTRICTIONS ON TRANSFERS OF CAPITAL STOCK AND ANTI-TAKEOVER PROVISIONS" on page 8 of this prospectus for a detailed description of the share Ownership Limits.

USE OF PROCEEDS

We will not receive any proceeds from the issuance of the common shares covered by this prospectus.

PLAN OF DISTRIBUTION

This prospectus relates to our offering of up to 17,901 common shares if, and to the extent that, the holders of an equal number of OP units submit such OP units for redemption. We will not receive proceeds from any issuance of common shares in exchange for OP units (but we will acquire the OP units submitted for redemption).

We are registering the common shares covered by this prospectus in order to permit the recipient thereof to sell such shares without restriction, in the open market or otherwise. However, the registration of such common shares does not necessarily mean that any of the OP units will be submitted for redemption or that any of such common shares to be issued upon such redemption will be offered or sold by the recipient thereof.

The recipient of the common shares covered by this prospectus, and any agents or broker-dealers that participate with them in the distribution of such common shares, may be deemed "underwriters" within the meaning of the Securities Act and any commissions received by them on the resale of such common shares may be deemed to be underwriting commissions or discounts under the Securities Act.

DESCRIPTION OF COMMON SHARES

The following summary of the material terms and provisions of our common shares does not purport to be complete and is subject to the detailed provisions of our Declaration of Trust and our By-Laws, each of which is incorporated by reference into this prospectus. You should carefully read each of these documents in order to fully understand the terms and provisions of our common shares. For information on incorporation by reference, and how to obtain copies of these documents, see the section entitled "WHERE YOU CAN FIND MORE INFORMATION" on page ii of this prospectus.

General

Under our Declaration of Trust, our Board of Trustees has authority to issue 80,000,000 common shares. Under Maryland law, our shareholders generally are not responsible for our debts or obligations as a result of their status as shareholders.

Terms

Subject to the preferential rights of any other shares or series of equity securities and to the provisions of our Declaration of Trust regarding excess shares, holders of our common shares are entitled to receive dividends on our common shares if, as and when authorized and declared by our Board of Trustees out of assets legally available therefor and to share ratably in those of our assets legally available for distribution to our shareholders in the event that we liquidate, dissolve or wind up, after payment of, or adequate provision for, all of our known debts and liabilities and the amount to which holders of any class of shares classified or reclassified or having a preference on distributions in liquidation, dissolution or winding up have a right.

Subject to the provisions of our Declaration of Trust regarding excess shares, each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders, including the election of trustees and, except as otherwise required by law or except as otherwise provided in our Declaration of Trust with respect to any other class or series of shares, the holders of our common shares will possess exclusive voting power. There is no cumulative voting in the election of trustees, which means that the holders of a majority of our outstanding common shares can elect all of the trustees then standing for election, and the holders of the remaining common shares will not be able to elect any trustees.

Holders of our common shares have no conversion, sinking fund or redemption rights, or preemptive rights to subscribe for any of our securities.

We furnish our shareholders with annual reports containing audited consolidated financial statements and an opinion thereon expressed by an independent public accounting firm.

Subject to the provisions of our Declaration of Trust regarding excess shares, all of our common shares will have equal dividend, distribution, liquidation and other rights and will have no preference, appraisal or exchange rights.

Pursuant to the Maryland REIT Law, a real estate investment trust generally cannot amend its declaration of trust or merge unless approved by the affirmative vote of shareholders holding at least two-thirds of the shares entitled to vote on the matter unless a lesser percentage (but not less than a majority of all of the votes to be cast on the matter) is set forth in our Declaration of Trust. Our Declaration of Trust provides that those actions, with the exception of certain amendments to our Declaration of Trust for which a higher vote requirement has been set, will be valid and effective if authorized by holders of a majority of the total number of shares of all classes outstanding and entitled to vote thereon.

Transfer Agent

The transfer agent and registrar for our common shares is Mellon Investor Services, LLC.

RESTRICTIONS ON TRANSFERS OF CAPITAL STOCK AND ANTI-TAKEOVER PROVISIONS

Restrictions Relating To REIT Status

For us to qualify as a REIT under the Code, among other things, not more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (defined in the Code to include certain entities) during the last half of a taxable year, and such shares of our capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year (in each case, other than the first such year). To assist us in continuing to remain a qualified REIT, our Declaration of Trust, subject to certain exceptions, provides that no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of our equity shares, defined as common shares or preferred shares. We refer to this restriction as the Ownership Limit. Our Board of Trustees may waive the Ownership Limit if evidence satisfactory to our Board of Trustees and our tax counsel is presented that the changes in ownership will not then or in the future jeopardize our status as a REIT. Any transfer of equity shares or any security convertible into equity shares that would create a direct or indirect ownership of equity shares in excess of the Ownership Limit or that would result in our disqualification as a REIT, including any transfer that results in the equity shares being owned by fewer than 100 persons or results in us being "closely held" within the meaning of Section 856(h) of the Code, will be null and void, and the intended transferee will acquire no rights to such equity shares. The foregoing restrictions on transferability and ownership will not apply if our Board

of Trustees determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Equity shares owned, or deemed to be owned, or transferred to a shareholder in excess of the Ownership Limit, will automatically be exchanged for excess shares that will be transferred, by operation of law, to us as trustee of a trust for the exclusive benefit of the transferees to whom such shares of our capital stock may be ultimately transferred without violating the Ownership Limit. While the excess shares are held in trust, they will not be entitled to vote, they will not be considered for purposes of any shareholder vote or the determination of a quorum for such vote and, except upon liquidation, they will not be entitled to participate in dividends or other distributions. Any dividend or distribution paid to a proposed transferee of excess shares prior to our discovery that equity shares have been transferred in violation of the provisions of our Declaration of Trust will be repaid to us upon demand. The excess shares are not treasury shares, but rather constitute a separate class of our issued and outstanding shares. The original transferee-shareholder may, at any time the excess shares are held by us in trust, transfer the interest in the trust representing the excess shares to any individual whose ownership of the equity shares exchanged into such excess shares would be permitted under our Declaration of Trust, at a price not in excess of the price paid by the original transferee-shareholder for the equity shares that were exchanged into excess shares, or, if the transferee-shareholder did not give value for such shares, a price not in excess of the market price (as determined in the manner set forth in our Declaration of Trust) on the date of the purported transfer. Immediately upon the transfer to the permitted transferee, the excess shares will automatically be exchanged for equity shares of the class from which they were converted. If the foregoing transfer restrictions are determined to be void or invalid by virtue of any legal decision, statute, rule or regulation, then the intended transferee of any excess shares may be deemed, at our option, to have acted as an agent on our behalf in acquiring the excess shares and to hold the excess shares on our behalf.

In addition to the foregoing transfer restrictions, we will have the right, for a period of 90 days during the time any excess shares are held by us in trust, to purchase all or any portion of the excess shares from the original transferee-shareholder for the lesser of the price paid for the equity shares by the original transferee-shareholder or the market price (as determined in the manner set forth in our Declaration of Trust) of the equity shares on the date we exercise our option to purchase. The 90-day period begins on the date on which we receive written notice of the transfer or other event resulting in the exchange of equity shares for excess shares.

Each shareholder will be required, upon demand, to disclose to us in writing any information with respect to the direct, indirect and constructive ownership of beneficial interests as our Board of Trustees deems necessary to comply with the provisions of the Code applicable to REITs, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

This Ownership Limitation may have the effect of precluding an acquisition of control unless our Board of Trustees determines that maintenance of REIT status is no longer in our best interests.

Authorized Capital

Our authorized capital stock consists of an aggregate of (i) 80,000,000 common shares, (ii) 40,000,000 excess shares, 2,000,000 of which have been designated Excess Class A Preferred Stock, par value $.0001 per share and (iii) 10,000,000 preferred shares, 2,000,000 of which have been designated Class A Senior Cumulative Convertible Preferred Stock, $.0001 par value per share. The holder of all of the shares of Class A Preferred Stock converted all of such shares into common shares in accordance with the terms thereof on April 8, 2002, and as of the date of this prospectus, we have no preferred shares outstanding. We may issue such shares (other than reserved shares) from time to time in the discretion of our Board of Trustees to raise additional capital, acquire assets, including additional real properties, redeem or retire debt or for any other business purpose. In addition, the undesignated preferred shares may be issued in one or more additional classes with such designations, preferences and relative, participating, optional or other special rights including, without limitation, preferential dividend or voting rights, and rights upon liquidation, as will be fixed by our Board of Trustees. Our Board of Trustees is authorized to classify and reclassify any unissued shares of our capital stock by setting or changing, in any one or more respects, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares. This authority includes, without limitation, subject to the provisions of our Declaration of Trust, authority to classify or reclassify any unissued shares into a class or classes of preferred shares, preference shares, special shares or other shares, and to divide and reclassify

shares of any class into one or more series of that class. In some circumstances, the issuance of preferred shares, or the exercise by our Board of Trustees of its right to classify or reclassify shares, could have the effect of deterring individuals or entities from making tender offers for our common shares or seeking to change incumbent management.

Maryland Law

Maryland law includes certain other provisions which may also discourage a change in control of management. Maryland law provides that, unless an exemption applies, we may not engage in any "business combination" with an "interested stockholder" or any affiliate of an interested stockholder for a period of five years after the interested stockholder became an interested stockholder, and thereafter may not engage in a business combination with such interested stockholder unless the combination is recommended by our Board of Trustees and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by the holders of all of our outstanding voting shares, and (ii) 66 2/3% of the votes entitled to be cast by all holders of outstanding shares of voting shares other than voting shares held by the interested stockholder. An "interested stockholder" is defined, in essence, as any person owning beneficially, directly or indirectly, 10% or more of the outstanding voting shares of a Maryland real estate investment trust. The voting requirements do not apply at any time to business combinations with an interested stockholder or its affiliates if approved by our Board of Trustees prior to the time the interested stockholder first became an interested stockholder. Additionally, if the business combination involves the receipt of consideration by our shareholders that satisfy certain "fair price" conditions, such supermajority voting requirements do not apply.

Maryland law provides that "control shares" of a Maryland real estate investment trust acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror or by officers or trustees who are employees of the trust. "Control shares" are voting shares that, if aggregated with all other shares previously acquired by that person, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval.

A "control share acquisition" means the acquisition of ownership of or the power to direct the exercise of voting power of issued and outstanding control shares, subject to certain exceptions. A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the trust's board of trustees to call a special meeting of shareholders, to be held within 50 days of demand, to consider the voting rights of the shares. If no request for a meeting is made, the trust may itself present the question at any shareholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an "acquiring person statement" as required by the statute, then, subject to certain conditions and limitations, the trust may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value, determined without regard to the absence of voting rights, as of the date of the last control share acquisition or of any meeting of shareholders at which the voting rights of such shares were considered and not approved. If voting rights for control shares are approved at a shareholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights. The fair value of the shares as determined for purposes of the appraisal rights may not be less than the highest price per share paid in the control share acquisition, and certain limitations and restrictions otherwise applicable to the exercise of dissenters' rights do not apply in the context of a control share acquisition.

The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, or to acquisitions approved or exempted by our Declaration of Trust or By-Laws prior to the control share acquisition. No such exemption appears in our Declaration of Trust or By-Laws. The control share acquisition statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offer.

Additionally, Maryland law may make it more difficult for someone to acquire us. Maryland law provides, among other things, that the board of trustees has broad discretion in adopting shareholders' rights plans and has the sole power to fix the record date, time and place for special meetings of the shareholders. In addition, Maryland law provides that trusts that have three trustees who are not employees of the entity or related to an acquiring person and are subject to the reporting requirements of the Securities Exchange Act of 1934 may elect in their declaration of trust or bylaws or by resolution of the board of trustees to be subject to all or part of a special subtitle which provides, among other things, that: (1) the trust will have a staggered board of trustees; (2) the number of trustees may only be set by the board of trustees, even if the procedure is contrary to the declaration of trust or bylaws; (3) vacancies may only be filled by the remaining trustees, even if the procedure is contrary to the declaration of trust or bylaws; and (4) the secretary of the trust may call a special meeting of shareholders at the request of shareholders only on the written request of the shareholders entitled to cast at least a majority of all the votes entitled to be cast at least a majority of all the votes entitled to be cast at the meeting, even if the procedure is contrary to the declaration of trust or bylaws.

DESCRIPTION OF OP UNITS

The material terms of the OP units, including a summary of certain provisions of the Agreement of Limited Partnership of the Operating Partnership, which we refer to as the Partnership Agreement, as in effect as of the date of this prospectus, are set forth below. The following description does not purport to be complete and is subject to and qualified in its entirety by reference to applicable provisions of Delaware law and the Partnership Agreement. For a comparison of the voting and other rights of holders of OP units, whom we refer to as unitholders or limited partners, and our shareholders, see "COMPARISON OF OWNERSHIP OF OP UNITS AND COMMON SHARES" beginning on page 16 of this prospectus.

General

We are the sole unitholder of Lex GP-1 Trust (Lex GP-1), a Maryland business trust which is the general partner of the Operating Partnership and holds, as of the date of this prospectus, a 1% interest in the Operating Partnership. We are also the sole unitholder of Lex LP-1 Trust (Lex LP-1), a Maryland business trust which holds, as of the date of this prospectus, an approximately 78% limited partnership interest in the Operating Partnership. We indirectly hold OP units through these entities.

Issuance of OP Units

Our operating partnership structure enables us to acquire property by issuing OP units to a seller as a form of consideration. All of the OP units which have been issued as of the date of this prospectus are redeemable, at the option of the holders thereof, on a one-for-one basis (subject to certain anti-dilution adjustments) for common shares at various times, and certain OP units require us to pay distributions to the holders thereof (although certain OP units currently outstanding do not require the payment of distributions). As a result, our cash available for distribution to shareholders is reduced by the amount of the distributions required by the terms of such OP units, and the number of common shares that will be outstanding in the future is expected to increase, from time to time, as such OP units are redeemed for common shares. The general partner of the Operating Partnership has the right to redeem the OP units held by all, but not less than all, of the unitholders (other than those unitholders identified as the "Special Limited Partners" in the Partnership Agreement) under certain circumstances, including but not limited to a merger, sale of assets or other transaction by the Company or the Operating Partnership which would result in a change of beneficial ownership in the Company or the Operating Partnership by 50% or more.

Unitholders hold limited partnership interests in the Operating Partnership, and all unitholders are entitled to share in the profits and losses of the Operating Partnership.

Unitholders have the rights to which limited partners are entitled under the Partnership Agreement and the Delaware Revised Uniform Limited Partnership Act, which we refer to as the Delaware Act. The OP units have not been registered pursuant to the federal or state securities laws and are not listed on any exchange or quoted on any national market system.

As of the date of this prospectus, we have 5,258,778 OP units outstanding, of which in addition to the 17,901 OP units to which this prospectus relates, 4,868,732 are also currently redeemable for common shares. The average annualized distribution per OP unit is $1.17. Of the total OP units, 1,623,550 OP units are owned by our affiliates, including two members of our Board of Trustees.

Purposes, Business And Management

The purpose of the Operating Partnership includes the conduct of any business that may be conducted lawfully by a limited partnership formed under the Delaware Act, except that the Partnership Agreement requires the business of the Operating Partnership to be conducted in such a manner that will permit us to continue to be classified as a REIT under Sections 856 through 860 of the Code, unless we cease to qualify as a REIT for reasons other than the conduct of the business of the Operating Partnership. Subject to the foregoing limitation, the Operating Partnership may enter into partnerships, joint ventures or similar arrangements and may own interests in any other entity.

We, as sole unitholder of the general partner of the Operating Partnership, have exclusive power and authority to conduct the business of the Operating Partnership, subject to the consent of the limited partners in certain limited circumstances discussed below. No limited partner may take part in the operation, management or control of the business of the Operating Partnership by virtue of being a unitholder.

Ability To Engage In Other Businesses; Conflicts Of Interest

The general partner may acquire assets directly and engage in activities outside of the Operating Partnership, including activities in direct or indirect competition with the Operating Partnership. Other persons (including officers, trustees, employees, agents and other affiliates of the Company) are not prohibited under the Partnership Agreement from engaging in other business activities and will not be required to present any business opportunities to the Operating Partnership.

Distributions; Allocations Of Income And Loss

Generally, unitholders are allocated and distributed amounts with respect to their OP units which approximate the amount of distributions made with respect to the same number of our common shares, as determined in the manner provided in the Partnership Agreement and subject to certain restrictions and exceptions for certain limited partners. Remaining amounts available for distribution are generally allocated to the general partner.

Borrowing By The Partnership

The general partner has full power and authority to cause the Operating Partnership to borrow money and to issue and guarantee debt.

Reimbursement Of Expenses; Transactions With The General Partner And Its Affiliates

Neither Lex GP-1 nor the Company receives any compensation for Lex GP-1's services as general partner of the Operating Partnership. Lex GP-1 and Lex LP-1, however, as partners in the Operating Partnership, have the same right to allocations and distributions as other partners of the Operating Partnership. In addition, the Operating Partnership will reimburse Lex GP-1 and the Company for all expenses incurred by them related to the ownership and operation of, or for the benefit of, the Operating Partnership. In the event that certain expenses are incurred for the benefit of the Operating Partnership and other entities (including us), such expenses are allocated by us, as sole unitholder of the general partner of the Operating Partnership, to the Operating Partnership and such other entities in a manner as we, as sole unitholder of the general partner of the Operating Partnership, in our sole and absolute discretion deem fair and reasonable. We have guaranteed the obligations of the Operating Partnership in connection with the redemption of OP units pursuant to the Partnership Agreement.

We and our affiliates may engage in any transactions with the Operating Partnership subject to the fiduciary duties established under applicable law.

Liability Of General Partner And Limited Partners

Lex GP-1, as the general partner of the Operating Partnership, is ultimately liable for all general recourse obligations of the Operating Partnership to the extent not paid by the Operating Partnership. Lex GP-1 is not liable for the nonrecourse obligations of the Operating Partnership. The limited partners of the Operating Partnership are not required to make additional contributions to the Operating Partnership. Assuming that a limited partner does not take part in the control of the business of the Operating Partnership and otherwise acts in conformity with the provisions of the Partnership Agreement, the liability of the limited partner for obligations of the Operating Partnership under the Partnership Agreement and the Delaware Act is generally limited, subject to certain limited exceptions, to the loss of the limited partner's investment in the Operating Partnership represented by his or her OP units. The Operating Partnership will operate in a manner the general partner deems reasonable, necessary and appropriate to preserve the limited liability of the limited partners.

Exculpation And Indemnification Of The General Partner

Generally, Lex GP-1, as general partner of the Operating Partnership (and the Company as the sole unitholder of the general partner of the Operating Partnership) will incur no liability to the Operating Partnership or any limited partner for losses sustained or liabilities incurred as a result of errors in judgment or of any act or omission if we carried out our duties in good faith. In addition, Lex GP-1 and the Company are not responsible for any misconduct or negligence on the part of their agents, provided Lex GP-1 and the Company appointed such agents in good faith. Lex GP-1 and the Company may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisors, and any action it takes or omits to take in reliance upon the opinion of such persons, as to matters that Lex GP-1 and the Company reasonably believe to be within their professional or expert competence, shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

The Partnership Agreement also provides that the Operating Partnership will indemnify Lex GP-1 and the Company, the directors, trustees and officers of Lex GP-1 and the Company, and such other persons as Lex GP-1 and the Company may from time to time designate to the fullest extent permitted under the Delaware Act.

Sales Of Assets

Under the Partnership Agreement, Lex GP-1 generally has the exclusive authority to determine whether, when and on what terms the assets of the Operating Partnership will be sold. The Operating Partnership, however, is prohibited under the Partnership Agreement and certain contractual agreements from selling certain assets, except in certain limited circumstances. Lex GP-1 may not consent to a sale of all or substantially all of the assets of the Operating Partnership, or a merger of the Operating Partnership with another entity, without the consent of a majority in interest of the Special Limited Partners.

Removal Of The General Partner; Restrictions on Transfer By The General Partner Or The Company

The Partnership Agreement provides that the limited partners may not remove Lex GP-1 as general partner of the Operating Partnership. Lex GP-1 may not transfer any of its interests as the general partner of the Operating Partnership, and Lex LP-1 may not transfer any of its interests as a limited partner in the Operating Partnership, except to each other or to the Company. We also may not sell all or substantially all of our assets, or enter into a merger, unless the sale or merger includes the sale of all or substantially all of the assets, or the merger, of the Operating Partnership in pursuant to which unitholders receive substantially the same consideration as shareholders.

Restrictions On Transfer Of OP Units By Unitholders

Unitholders now may transfer, subject to certain limitations, the economic rights associated with their OP units without the consent of the general partner, thereby eliminating the ability of the general partner to block, except in very limited circumstances, such assignments. However, a transferee will not be admitted to the Operating Partnership as a substituted limited partner without the consent of the general partner. In addition, unitholders may

dispose of their OP units by exercising their rights to have their OP units redeemed for common shares. See "REDEMPTION OF OP UNITS" below.

Issuance Of Additional Limited Partnership Interests

Lex GP-1 is authorized, in its sole and absolute discretion and without the consent of the limited partners, to cause the Operating Partnership to issue additional OP units to any limited partners or any other persons for such consideration and on such terms and conditions as Lex GP-1 deems appropriate. In addition, Lex GP-1 may cause the Operating Partnership to issue additional partnership interests in different series or classes, which may be senior to the OP units. Subject to certain exceptions, no additional OP units may be issued to the Company, Lex GP-1 or Lex LP-1.

Meetings; Voting

The Partnership Agreement provides that limited partners shall not take part in the operation, management or control of the Operating Partnership's business. The Partnership Agreement does not provide for annual meetings of the limited partners, and the Operating Partnership does not anticipate calling such meetings.

Amendment Of The Partnership Agreement

The Partnership Agreement may be amended with the consent of Lex GP-1, Lex LP-1 and a majority in interest of the Special Limited Partners. Notwithstanding the foregoing, Lex GP-1 has the power, without the consent of limited partners, to amend the Partnership Agreement in certain limited circumstances.

Dissolution, Winding Up And Termination

The Operating Partnership will continue until December 31, 2093, unless sooner dissolved and terminated. The Operating Partnership will be dissolved, and its affairs wound up upon the occurrence of the earliest of: (1) the expiration of the term; (2) the withdrawal of Lex GP-1 as general partner (except in certain limited circumstances); (3) the sale of all or substantially all of the Operating Partnership's assets and properties; or (4) the entry of a decree of judicial dissolution of the Operating Partnership pursuant to the provisions of the Delaware Act. Upon dissolution, Lex GP-1, as general partner, or any person elected as liquidator by a majority in interest of the limited partners, will proceed to liquidate the assets of the Operating Partnership and apply the proceeds therefrom in the order of priority set forth in the Partnership Agreement.

REDEMPTION OF OP UNITS

General

Each unitholder may, subject to certain limitations, require that the Operating Partnership redeem its OP units, by delivering a notice to the Operating Partnership. We have guaranteed the Operating Partnership's obligation to redeem OP units covered by any such notice. Upon redemption, such unitholder will receive one common share (subject to certain anti-dilution adjustments) in exchange for each OP unit held by such unitholder.

The Operating Partnership and the Company will satisfy any redemption right exercised by a unitholder through our issuance of common shares, whether pursuant to this prospectus or otherwise, whereupon we will acquire, and become the owner of, the OP units being redeemed. Such an acquisition of OP units by us will be treated as a sale of the OP units by the redeeming unitholders to us for federal income tax purposes. See "-- Tax Treatment of Redemption of OP Units" below. Upon redemption, such unitholder's right to receive distributions from the Operating Partnership with respect to the OP units redeemed will cease. The unitholder will have rights to dividend distributions as a shareholder of the Company from the time of its acquisition of common shares in exchange for the redemption of its OP units.

A unitholder must notify Lex GP-1 and us of its desire to require the Operating Partnership to redeem OP units by sending a notice in the form attached as an exhibit to the Partnership Agreement, a copy of which is available from us. A unitholder must request the redemption of at least 1,000 OP units, or, if the unitholder holds fewer than 1,000 OP units, all OP units held by such holder. No redemption can occur if the delivery of common

shares would be prohibited under the provisions of the Declaration of Trust designed to protect our qualification as a REIT.

Tax Treatment Of Redemption Of OP Units

The following discussion summarizes certain federal income tax considerations that may be relevant to a unitholder that exercises its right to redeem OP units.

The Partnership Agreement provides that the redemption of OP units will be treated by us, the Operating Partnership and the redeeming unitholder as a sale of OP units by such unitholder to us at the time of the redemption. Such sale will be fully taxable to the redeeming unitholder.

The determination of gain or loss from the sale or other disposition will be based on the difference between the unitholder's amount realized for tax purposes and his tax basis in such OP units. The amount realized will be measured by the fair market value of property received (e.g., the common shares) plus the portion of the Operating Partnership's liabilities allocable to the OP units sold. In general, a unitholder's tax basis is based on the cost of the OP units, adjusted for the unitholder's allocable share of Operating Partnership's income, loss and distributions, and can be determined by reference to the Operating Partnership's Schedule K-1's. To the extent that the amount realized exceeds the unitholder's basis for the OP units disposed of, such unitholder will recognize gain. It is possible that the amount of gain recognized or even the tax liability resulting from such gain could exceed the fair market value of the common shares received upon such disposition. EACH UNITHOLDER SHOULD CONSULT WITH ITS OWN TAX ADVISOR FOR THE SPECIFIC TAX CONSEQUENCES RESULTING FROM A REDEMPTION OF ITS OP UNITS.

Generally, any gain recognized upon a sale or other disposition of OP units will be treated as gain attributable to the sale or disposition of a capital asset. To the extent, however, that the amount realized upon the sale of OP units attributable to a unitholder's share of "unrealized receivables" of the Operating Partnerships (as defined in Section 751 of the Code) exceeds the basis attributable to those assets, such excess will be treated as ordinary income. Unrealized receivables include, to the extent not previously included in Operating Partnership's income, any rights to payment for services rendered or to be rendered. Unrealized receivables also include amounts that would be subject to recapture as ordinary income if the Operating Partnership had sold its assets at their fair market value at the time of the transfer of OP units.

For individuals, trusts and estates, the maximum rate of tax on the net capital gain from a sale or exchange of a long-term capital asset (i.e., a capital asset held for more than 12 months) is 20%. The maximum rate for net capital gains attributable to the sale of depreciable real property held for more than 12 months is 25% to the extent of the prior depreciation deductions for "unrecaptured Section 1250 gain" (that is, depreciation deductions not otherwise recaptured as ordinary income under the existing depreciation recapture rules). Treasury Regulations provide that individuals, trusts and estates are subject to a 25% tax to the extent of their allocable share of unrecaptured Section 1250 gain immediately prior to their sale or disposition of the OP units (the "25% Amount"). Provided that the OP units are held as a long-term capital asset, such unitholders would be subject to a maximum rate of tax of 20% of the difference, if any, between any gain on the sale or disposition of the OP units and the 25% Amount.

There is a risk that a redemption by the Operating Partnership of OP units issued in exchange for a contribution of property to the Operating Partnership may cause the original transfer of property to the Operating Partnership in exchange for OP units to be treated as a "disguised sale" of property. Section 707 of the Code and the Treasury Regulations thereunder (the "Disguised Sale Regulations") generally provide that, unless one of the prescribed exceptions is applicable, a partner's contribution of property to a partnership and a simultaneous or subsequent transfer of money or other consideration (which may include the assumption of or taking subject to a liability) from the partnership to the partner will be presumed to be a sale, in whole or in part, of such property by the partner to the partnership. Further, the Disguised Sale Regulations provide generally that, in the absence of an applicable exception, if money or other consideration is transferred by a partnership to a partner within two years of the partner's contribution of property, the transactions are presumed to be a sale of the contributed property unless the facts and circumstances clearly establish that the transfers do not constitute a sale. The Disguised Sale Regulations also provide that if two years have passed between the transfer of money or other consideration and the

contribution of property, the transactions will be presumed not to be a sale unless the facts and circumstances clearly establish that the transfers constitute a sale. EACH UNITHOLDER SHOULD CONSULT WITH ITS OWN TAX ADVISOR TO DETERMINE WHETHER A REDEMPTION OF OP UNITS COULD BE SUBJECT TO THE DISGUISED SALE REGULATIONS.

REGISTRATION RIGHTS

We have filed the registration statement of which this prospectus is a part pursuant to our obligations in conjunction with certain agreements entered into in connection with the acquisition of certain properties. Under these agreements, executed in conjunction with the parties listed therein, we are obligated to use our reasonable efforts to keep the registration statement continuously effective for a period expiring on the date on which all of the units covered by these agreements have been redeemed pursuant to the registration statement. Any shares that have been sold pursuant to such agreements, or have been otherwise transferred and new certificates for them have been issued without legal restriction on further transfer of such shares, will no longer be entitled to the benefits of those agreements.

We have no obligation under these agreements to retain any underwriter to effect the sale of the shares covered thereby and the registration statement shall not be available for use for an underwritten public offering of such shares.

Pursuant to these agreements, we agreed to pay all expenses of effecting the registration of the common shares covered by this prospectus (other than underwriting discounts and commissions, fees and disbursements of counsel, and transfer taxes, if any) pursuant to the registration statement.

COMPARISON OF OWNERSHIP OF OP UNITS AND COMMON SHARES

The information below highlights a number of the significant differences between the Operating Partnership and the Company relating to, among other things, form of organization, permitted investments, policies and restrictions, management structure, compensation and fees, investor rights and federal income taxation, and compares certain legal rights associated with the ownership of OP units and common shares, respectively. These comparisons are intended to assist unitholders in understanding how their investment will be changed if their OP units are redeemed for common shares. This discussion is summary in nature and does not constitute a complete discussion of these matters, and unitholders should carefully review the balance of this prospectus and the registration statement of which this prospectus is a part for additional important information about the Company.

THE OPERATING PARTNERSHIP	THE COMPANY
FORM OF ORGANIZATION AND ASSETS OWNED	
The Operating Partnership is organized as a Delaware limited partnership. The Operating Partnership owns interests (directly and indirectly through subsidiaries) in properties.	We are a Maryland statutory real estate investment trust. We believe that we have operated so as to qualify as a REIT under the Code, commencing with our taxable year ended December 31, 1993, and intend to continue to so operate. Our indirect interest in the Operating Partnership gives us an indirect investment in the properties owned by the Operating Partnership. In addition, we own (either directly or indirectly through interests in subsidiaries other than the Operating Partnership) interests in other properties.
LENGTH OF INVESTMENT	
The Operating Partnership has a stated termination date of December 31, 2093.	We have a perpetual term and intend to continue our operations for an indefinite time period.

PURPOSE AND PERMITTED INVESTMENTS	
The Operating Partnership's purpose is to conduct any business that may be lawfully conducted by a limited partnership organized pursuant to the Delaware Act, provided that such business is to be conducted in a	Our purposes are to engage in the real estate business and lawful activities incidental thereto, and to engage in any lawful activity permitted under the applicable laws of the State of Maryland. We are permitted by the

manner that permits us to be qualified as a REIT unless we cease to qualify as REIT for reason other than the conduct of the Operating Partnership's business. The Operating Partnership may not take, or refrain from taking, any action which, in the judgment of the general partner (which is wholly-owned by us) (i) could adversely affect our ability to continue to qualify as a REIT, (ii) could subject the general partner to any additional taxes under Section 857 or Section 4981 of the Code, or any other Section of the Code, or (iii) could violate any law or regulation of any governmental body (unless such action, or inaction, is specifically consented to by the general partner).

Partnership Agreement to engage in activities not related to the business of the Operating Partnership, including activities in direct or indirect competition with the Operating Partnership, and may own assets other than our interest in the Operating Partnership and such other assets necessary to carry out our responsibilities under the Partnership Agreement and our Declaration of Trust. In addition, we have no obligation to present opportunities to the Operating Partnership and the unitholders have no rights by virtue of the Partnership Agreement in any of our outside business ventures.

ADDITIONAL EQUITY

The Operating Partnership is authorized to issue OP units and other partnership interests (including partnership interests of different series or classes that may be senior to OP units) as determined by the general partner, in its sole discretion.

The Board of Trustees may issue, in its discretion, additional equity securities consisting of common shares or preferred shares. However, the total number of shares issued may not exceed the authorized number of shares of capital stock set forth in our Declaration of Trust. The proceeds of equity capital raised by the Company are not required to be contributed to the Operating Partnership.

BORROWING POLICIES

The Operating Partnership has no restrictions on borrowings, and the general partner has full power and authority to borrow money on behalf of the Operating Partnership.

Neither our Declaration of Trust nor our By-Laws impose any restrictions on our ability to borrow money. We are not required to incur our indebtedness through the Operating Partnership.

OTHER INVESTMENT RESTRICTIONS

Other than restrictions precluding investments by the Operating Partnership that would adversely affect our qualification as a REIT, there are no restrictions upon the Operating Partnership's authority to enter into certain transactions, including among others, making investments, lending Operating Partnership funds, or reinvesting the Operating Partnership's cash flow and net sale or refinancing proceeds.

Neither our Declaration of Trust nor our By-Laws impose any restrictions upon the types of investments made by us.

MANAGEMENT CONTROL

All management powers over the business and affairs of the Operating Partnership are vested in the general partner of the Operating Partnership, and no limited partner of the Operating Partnership has any right to participate in or exercise control or management power over the business and affairs of the Operating Partnership except that (1) the general partner of the Operating Partnership may not consent to the participation of the Operating Partnership in any merger, consolidation or other combination with or into another person or entity, or a sale of all or substantially all of the Operating Partnership's assets without the consent of a majority in interest of the Special Limited Partners, and (2) there are certain limitations on the ability of the general partner of the Operating Partnership to cause or permit the Operating Partnership to dissolve. See "--VOTING RIGHTS--VOTE REQUIRED TO DISSOLVE THE OPERATING PARTNERSHIP OR THE COMPANY" below. The general partner may not be removed by the limited partners of the Operating Partnership with or without cause.

The Board of Trustees has exclusive control over our business and affairs subject only to the restrictions in our Declaration of Trust and By-Laws. The Board of Trustees consists of seven trustees, which number may be increased or decreased by vote of at least a majority of the entire Board of Trustees pursuant to our By-Laws, but may never be fewer than the minimum permitted by the Maryland REIT Law. At each annual meeting of our shareholders, the successors of the class of trustees whose terms expire at that meeting will be elected. The policies adopted by the Board of Trustees may be altered or eliminated without a vote of the shareholders. Accordingly, except for their vote in the elections of trustees, shareholders have no control over our ordinary business policies.

FIDUCIARY DUTIES

Under Delaware law, the general partner of the Operating Partnership is accountable to the Operating Partnership as a fiduciary and, consequently, is required to exercise good faith and integrity in all of its dealings with respect to partnership affairs. However, under the Partnership Agreement, the general partner may, but is under no obligation to, take into account the tax consequences to any partner of any action taken by it, and the general partner is not liable for monetary damages for losses sustained or liabilities incurred by partners as a result of errors of judgment or of any act or omission, provided that the

Under Maryland law, the trustees must perform their duties in good faith, in a manner that they reasonably believe to be in the best interests of the Company and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Trustees of the Company who act in such a manner generally will not be liable to the Company for monetary damages arising from their activities.

general partner has acted in good faith.

MANAGEMENT LIABILITY AND INDEMNIFICATION

Under Delaware law, the general partner has liability for the payment of the obligations and debts of the Operating Partnership unless limitations upon such liability are stated in the document or instrument evidencing the obligation. Under the Partnership Agreement, the Operating Partnership has agreed to indemnify the general partner and the Company, and any director or officer of the general partner or the Company to the fullest extent permitted under the Delaware Act. The reasonable expenses incurred by an indemnitee may be reimbursed by the Operating Partnership in advance of the final disposition of the proceeding upon receipt by the Operating Partnership of a written affirmation by such indemnitee of his, her or its good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking by such indemnitee to repay the amount if it is ultimately determined that such standard was not met.

Under our Declaration of Trust, the liability of the Company's trustees and officers to the Company and its shareholders for money damages is limited to the fullest extent permitted under Maryland law. Under our Declaration of Trust we have agreed to indemnify trustees and officers, to the fullest extent permitted under Maryland law and to indemnify our other employees and agent s to such extent as authorized by our Board of Trustees or our By-Laws, but only to the extent permitted under applicable law.

ANTI-TAKEOVER PROVISIONS

Except in limited circumstances (see "--VOTING RIGHTS" below), the general partner of the Operating Partnership has exclusive management power over the business and affairs of the Operating Partnership. The general partner may not be removed by the limited partners with or without cause. Under the Partnership Agreement, a limited partner may transfer his or her interest as a limited partner (subject to certain limited exceptions set forth in the Partnership Agreement), without obtaining the approval of the general partner except that the general partner may, in its sole discretion, prevent the admission of transferees to the Operating Partnership as

Our Declaration of Trust and By-Laws contain a number of provisions that may have the effect of delaying or discouraging an unsolicited proposal for the acquisition of the Company or the removal of incumbent management. These provisions include, among others: (1) authorized capital shares that may be issued as Preferred Shares in the discretion of the Board of Trustees, with superior voting rights to the common shares; (2) a requirement that trustees may be removed only for cause and only by the affirmative vote of the holders of at least 80% of the combined voting power of all classes of shares of beneficial interest entitled to vote in the election of trustees; and

substituted limited partners.	(3) provisions designed to avoid concentration of share ownership in a manner that would jeopardize our status as a REIT under the Code.

VOTING RIGHTS

All decisions relating to the operation and management of the Operating Partnership are made by the general partner. See "DESCRIPTION OF OP UNITS" beginning on page 11 of this prospectus. As of the date of this prospectus, we held, through various subsidiaries, approximately 79% of the outstanding OP units. As OP units are redeemed by unitholders, the Company's percentage ownership of the Operating Partnership will increase.	The Company is managed and controlled by a Board of Trustees presently consisting of seven members. Each trustee is to be elected by the shareholders at annual meetings of the Company. Maryland law requires that certain major corporate transactions, including most amendments to the Declaration of Trust, may not be consummated without the approval of shareholders as set forth below. All common shares have one vote, and the Declaration of Trust permits the Board of Trustees to classify and issue preferred shares in one or more series having voting power which may differ from that of the common shares. See "DESCRIPTION OF COMMON SHARES" beginning on page 7 of this prospectus.

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The following is a comparison of the voting rights of the limited partners of the Operating Partnership and the shareholders of the Company as they relate to certain major transactions:

A. AMENDMENT OF THE PARTNERSHIP AGREEMENT OR THE DECLARATION OF TRUST.

The Partnership Agreement may be amended with the consent of Lex GP-1, Lex LP-1 and a majority in interest of the Special Limited Partners. Certain amendments that affect the fundamental rights of a limited partner must be approved by each affected limited partner. In addition, the general partner may, without the consent of the limited partners, amend the Partnership Agreement as to certain ministerial matters.	Amendments to our Declaration of Trust must be approved by the Board of Trustees and generally by at least a majority of the votes entitled to be cast on that matter at a meeting of shareholders.

B. VOTE REQUIRED TO DISSOLVE OR TERMINATE THE OPERATING PARTNERSHIP OR THE COMPANY.

The Operating Partnership may be dissolved upon the occurrence of certain events, none of which require	The Company may be terminated only upon the affirmative vote of the holders of two-thirds of the

the consent of the limited partners.	outstanding common shares.

C. VOTE REQUIRED TO SELL ASSETS OR MERGE.

Under the Partnership Agreement, the sale, exchange, transfer or other disposition of all or substantially all of the Operating Partnership's assets, or a merger or consolidation of the Operating Partnership, require the consent of a majority in interest of the Special Limited Partners. The general partner of the Operating Partnership has the exclusive authority the sell individual assets of the Operating Partnership.	Under Maryland law, the sale of all or substantially all of our assets, or a merger or consolidation of the Company, requires the approval of the Board of Trustees and the holders of a majority of the outstanding common shares. No approval of the shareholders is required for the sale of less than all or substantially all of our assets.

COMPENSATION, FEES AND DISTRIBUTIONS

The general partner does not receive any compensation for its services as general partner of the Operating Partnership. As a partner in the Operating Partnership, however, the general partner has the same right to allocations and distributions as other partners of the Operating Partnership. In addition, the Operating Partnership will reimburse the general partner (and the Company) for all expenses incurred relating to the ownership and operation of the Operating Partnership and any other offering of additional partnership interests in the Operating Partnership.	Our non-employee trustees and our officers receive compensation for their services.

LIABILITY OF INVESTORS

Under the Partnership Agreement and applicable state law, the liability of the limited partners for the Operating Partnership's debts and obligations is generally limited to the amount of their investment in the Operating Partnership.	Under Maryland law, shareholders are not personally liable for the debts or obligations of the Company.

NATURE OF INVESTMENT

The OP units constitute equity interests in the Operating Partnership. Generally, unitholders are allocated and distributed amounts	Common shares constitute equity interests in the Company. We are entitled to receive our pro rata share of distributions made by the Operating

with respect to their OP units which approximate the amount of distributions made with respect to the same number of our common shares, as determined in the manner provided in the Partnership Agreement and subject to certain restrictions and exceptions for certain limited partners. The Operating Partnership generally intends to retain and reinvest proceeds of the sale of property or excess refinancing proceeds in its business.

Partnership with respect to OP units held by us, and by our other direct subsidiaries. Each shareholder will be entitled to his pro rata share of any dividends or distributions paid with respect to the common shares. The dividends payable to the shareholders are not fixed in amount and are only paid if, when and as declared by the Board of Trustees. In order to continue to qualify as a REIT, we generally must distribute at least 90% of our net taxable income (excluding capital gains), and any taxable income (including capital gains) not distributed will be subject to corporate income tax.

POTENTIAL DILUTION OF RIGHTS

The general partner of the Operating Partnership is authorized, in its sole discretion and without limited partner approval, to cause the Operating Partnership to issue additional limited partnership interests and other equity securities for any partnership purpose at any time to the limited partners or to other persons (including the general partner under certain circumstances set forth in the Partnership Agreement).

The Board of Trustees may issue, in its discretion, additional shares, and has the authority to issue from authorized capital a variety of other equity securities of the Company with such powers, preferences and rights as the Board of Trustees may designate at the time. The issuance of either additional common shares or other similar equity securities may result in the dilution of the interests of the shareholders.

LIQUIDITY

Limited partners may generally transfer their OP units without the general partner's consent, except that the general partner may, in its sole discretion, prevent the admission of transferees to the Operating Partnership as substituted limited partners. Certain limited partners have the right to tender their OP units for redemption by the Operating Partnership at certain times, as specified in the Partnership Agreement. See "REDEMPTION OF OP UNITS" beginning on page 14 of this prospectus.

The common shares covered by this prospectus will be freely transferable as registered securities under the Securities Act. Our common shares are listed on the NYSE. The breadth and strength of this secondary market will depend, among other things, upon the number of shares outstanding, our financial results and prospects, the general interest in the Company's and other real estate investments, and our dividend yield compared to that of other debt and equity securities.

FEDERAL INCOME TAXATION

The Operating Partnership is not subject to federal income taxes. Instead, each unitholder includes its allocable share of the Operating Partnership's taxable income or loss in determining its individual federal income tax liability. The maximum federal income tax rate for individuals under current law is 38.6%.

A unitholder's share of income and loss generated by the Operating Partnership generally is subject to the "passive activity" limitations. Under the "passive activity" rules, income and loss from the Operating Partnership that are considered "passive income" generally can be offset against income and loss from other investments that constitute "passive activities." Cash distributions from the Operating Partnership are not taxable to a unitholder except to the extent such distributions exceed such unitholder's basis in its interest in the Operating Partnership (which will include such holder's allocable share of the Operating Partnership's taxable income and nonrecourse debt).

Each year, unitholders will receive a Schedule K-1 containing detailed tax information for inclusion in preparing their federal income tax returns.

Unitholders are required, in some cases, to file state income tax returns and/or pay state income taxes in the states in which the Operating Partnership owns property, even if they are not residents of those states.

We have elected to be taxed as a REIT. So long as we qualify as a REIT, we will be permitted to deduct distributions paid to our shareholders, which effectively will reduce the "double taxation" that typically results when a corporation earns income and distributes that income to its shareholders in the form of dividends. A qualified REIT, however, is subject to federal income tax on income that is not distributed and also may be subject to federal income and excise taxes in certain circumstances. The maximum federal income tax rate for corporations under current law is 35%.

Dividends paid by us will be treated as "portfolio" income and cannot be offset with losses from "passive activities." The maximum federal income tax rate for individuals under current law is 38.6%. Distributions made by us to our taxable domestic shareholders out of current or accumulated earnings and profits will be taken into account by them as ordinary income. Distributions that are designated as capital gain dividends generally will be taxed as long-term capital gain, subject to certain limitations. Distributions in excess of current or accumulated earnings and profits will be treated as a non-taxable return of basis to the extent of a shareholder's adjusted basis in its common shares, with the excess taxed as capital gain.

Each year, shareholders will receive an IRS Form 1099 used by corporations to report dividends paid to their shareholders.

Shareholders who are individuals generally will not be required to file state income tax returns and/or pay state income taxes outside of their state of residence with respect to our operations and distributions. We may be required to pay state income taxes in certain states.

Federal Income Tax Considerations

The following discussion summarizes the material federal income tax considerations to you as a prospective holder of our common shares. For a discussion of certain federal income tax considerations that may be relevant to a unitholder that exercises its right to redeem OP units, see "REDEMPTION OF OP UNITS - Tax Treatment of Redemption of OP Units" beginning on page 15 of this prospectus. The following discussion is for general information purposes only, is not exhaustive of all possible tax considerations and is not intended to be and should not be construed as tax advice. For example, this summary does not give a detailed discussion of any state, local or foreign tax considerations. In addition, this discussion is intended to address only those federal income tax considerations that are generally applicable to all of our security holders. It does not discuss all of the aspects of federal income taxation that may be relevant to you in light of your particular circumstances or to certain types of security holders who are subject to special treatment under the federal income tax laws including, without limitation, insurance companies, tax-exempt entities, financial institutions or broker-dealers, foreign corporations and persons who are not citizens or residents of the United States.

The information in this section is based on the Internal Revenue Code of 1986, as amended, which is generally referred to as the Code, existing, temporary and proposed regulations under the Code, the legislative history of the Code, current administrative rulings and practices of the IRS and court decisions, all as of the date hereof. No assurance can be given that future legislation, regulations, administrative interpretations and court decisions will not significantly change current law or adversely affect existing interpretations of current law. Any such change could apply retroactively to transactions preceding the date of the change. In addition, we have not received, and do not plan to request, any rulings from the IRS concerning our tax treatment. Thus no assurance can be provided that the statements set forth herein (which do not bind the IRS or the courts) will not be challenged by the IRS or that such statements will be sustained by a court if so challenged.

EACH PROSPECTIVE PURCHASER OF COMMON SHARES IS ADVISED TO CONSULT WITH HIS OR HER OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO HIM OR HER OF THE PURCHASE, OWNERSHIP AND SALE OF COMMON SHARES OF AN ENTITY ELECTING TO BE TAXED AS A REIT, INCLUDING THE FEDERAL, STATE, LOCAL AND FOREIGN AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP, SALE AND ELECTION AND OF POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

Taxation of the Company

General. We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1993. We believe that we have been organized, and have operated, in such a manner so as to qualify for taxation as a REIT under the Code and intend to conduct our operations so as to continue to qualify for taxation as a REIT. No assurance, however, can be given that we have operated in a manner so as to qualify or will be able to operate in such a manner so as to remain qualified as a REIT. Qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual operating results, the required distribution levels, diversity of share ownership and the various qualification tests imposed under the Code discussed below, the results of which will not be reviewed by counsel. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that the actual results of our operations for any one taxable year have satisfied or will continue to satisfy such requirements.

The following is a general summary of the Code provisions that govern the federal income tax treatment of a REIT and its shareholders. These provisions of the Code are highly technical and complex. This summary is qualified in its entirety by the applicable Code provisions, Treasury Regulations and administrative and judicial interpretations thereof, all of which are subject to change prospectively or retroactively.

If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net income that is currently distributed to shareholders. This treatment substantially eliminates the "double taxation" (at the corporate and shareholder levels) that generally results from investment in a corporation. However, we will be subject to federal income tax as follows: first, we will be taxed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains. Second, under certain circumstances,

we may be subject to the "alternative minimum tax" on our items of tax preference. Third, if we have (a) net income from the sale or other disposition of "foreclosure property", which is, in general, property acquired on foreclosure or otherwise on default on a loan secured by such real property or a lease of such property, which is held primarily for sale to customers in the ordinary course of business or (b) other nonqualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on such income. Fourth, if we have net income from prohibited transactions such income will be subject to a 100% tax. Prohibited transactions are, in general, certain sales or other dispositions of property held primarily for sale to customers in the ordinary course of business other than foreclosure property. Fifth, if we should fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), but nonetheless maintain our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater of the amount by which we fail the 75% or 95% test multiplied by (b) a fraction intended to reflect our profitability. Sixth, if we should fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. Seventh, as provided in temporary regulations, and assuming we do not elect to instead be taxed at the time of acquisition, if we acquire any asset from a C corporation (i.e., a corporation generally subject to full corporate level tax) in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset (or any other property) in the hands of the C corporation, we would be subject to tax at the highest corporate rate if we dispose of such asset during the 10-year period beginning on the date that we acquired that asset, to the extent of such property's "built-in gain" (the excess of the fair market value of such property at the time of our acquisition over the adjusted basis of such property at such time). Eighth, we will incur a 100% excise tax on transactions with a taxable REIT subsidiary that are not conducted on an arm's-length basis.

Requirements for Qualification. A REIT is a corporation, trust or association (1) which is managed by one or more trustees or directors, (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest, (3) which would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code, (4) which is neither a financial institution nor an insurance company subject to certain provisions of the Code, (5) that has the calendar year as its taxable year, (6) the beneficial ownership of which is held by 100 or more persons, (7) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities), and (8) which meets certain other tests, described below, regarding the nature of its income and assets. The Code provides that conditions (1) through (5), inclusive, must be met during the entire taxable year and that condition (6) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. We expect to meet the ownership test immediately after the transaction contemplated herein.

We may redeem, at our option, a sufficient number of shares or restrict the transfer thereof to bring or maintain the ownership of the shares in conformity with the requirements of the Code. In addition, our Declaration of Trust includes restrictions regarding the transfer of our stock that are intended to assist us in continuing to satisfy requirements (6) and (7). Moreover, if we comply with regulatory rules pursuant to which we are required to send annual letters to our shareholders requesting information regarding the actual ownership of shares of our capital stock, and we do not know, or exercising reasonable diligence would not have known, whether we failed to meet requirement (7) above, we will be treated as having met the requirement. See the section entitled "DESCRIPTION OF COMMON SHARES" beginning on page 7 of this prospectus and the section entitled "RESTRICTIONS ON TRANSFERS OF CAPITAL STOCK AND ANTI-TAKEOVER PROVISIONS" beginning on page 8 of this prospectus.

The Code allows a REIT to own wholly-owned subsidiaries which are "qualified REIT subsidiaries." The Code provides that a qualified REIT subsidiary is not treated as a separate corporation, and all of its assets, liabilities and items of income, deduction and credit are treated as assets, liabilities and items of income, deduction and credit of the REIT. Thus, in applying the requirements described herein, our qualified REIT subsidiaries will be ignored, and all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as our assets, liabilities and items of income, deduction and credit.

For taxable years beginning on or after January 1, 2001, a REIT may also hold any direct or indirect interest in a corporation that qualifies as a "taxable REIT subsidiary", as long as the REIT's aggregate holdings of

taxable REIT subsidiary securities do not exceed 20% of the value of the REIT's total assets. A taxable REIT subsidiary is a fully taxable corporation that generally is permitted to engage in businesses, own assets, and earn income that, if engaged in, owned, or earned by the REIT, might jeopardize REIT status or result in the imposition of penalty taxes on the REIT. To qualify as a taxable REIT subsidiary, the subsidiary and the REIT must make a joint election to treat the subsidiary as a taxable REIT subsidiary. A taxable REIT subsidiary also includes any corporation (other than a REIT or a qualified REIT subsidiary) in which a taxable REIT subsidiary directly or indirectly owns more than 35% of the total voting power or value. See "Asset Tests" below. A taxable REIT subsidiary will pay tax at regular corporate income rates on any taxable income it earns. Moreover, the Code contains rules, including rules requiring the imposition of taxes on a REIT at the rate of 100% on certain reallocated income and expenses, to ensure that contractual arrangements between a taxable REIT subsidiary and its parent REIT are at arm's-length.

In the case of a REIT which is a partner in a partnership, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of each of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and items of gross income of the partnership will retain the same character in the hands of the REIT for purposes of Section 856 of the

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Code, including satisfying the gross income and assets tests (as discussed
below). Thus, our proportionate share of the assets, liabilities, and items of
gross income of the partnerships in which weeff;padding-left:2px;padding-top:2px;padding-bottom:2
 (4,356) (241)
Other losses—
 (412) —
 (412)
Other expense, net(4,933) (974) (7,658) (4,916)
Income before income taxes29,195
 26,826
 50,852
 42,042
Income tax expense(8,707) (8,661) (14,431) (11,817)
Net income 20,488
 18,165
 36,421
 30,225
Net loss (income) attributable to noncontrolling interests14
 (54) 103
 (108)
Net income attributable to Euronet Worldwide, Inc.$20,502
 $18,111
 $36,524
 $30,117

Earnings per share attributable to Euronet Worldwide, Inc. stockholders:
Basic$0.40
 $0.36
 $0.71
 $0.61
Diluted$0.38
 $0.35
 $0.69
 $0.59

Weighted average shares outstanding:
Basic51,675,775
 49,889,640
 51,231,997
 49,697,176
Diluted53,773,759
 51,517,640
 53,279,782
 51,122,810
```

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$20,488	$18,165	$36,421	$30,225
Translation adjustment	4,137	(10,927)	7,336	(28,077)
Comprehensive income	24,625	7,238	43,757	2,148
Comprehensive loss (income) attributable to noncontrolling interests	26	(108)	114	(99)
Comprehensive income attributable to Euronet Worldwide, Inc.	$24,651	$7,130	$43,871	$2,049

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, 2014	2013
Net income	$36,421	$30,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,498	33,908
Share-based compensation	6,511	6,152
Unrealized foreign exchange loss, net	4,356	241
Deferred income taxes	(2,896)	(427)
Loss (income) from unconsolidated affiliates	31	(260)
Amortization of debt issuance costs	583	500
Changes in working capital, net of amounts acquired:		
Income taxes payable, net	(1,113)	(1,314)
Restricted cash	16,574	7,116
Inventory — PINs and other	24,720	13,471
Trade accounts receivable	64,960	34,175
Prepaid expenses and other current assets	(5,911)	(10,872)
Trade accounts payable	(69,469)	(66,475)
Deferred revenue	(2,298)	(2,856)
Accrued expenses and other current liabilities	(4,587)	7,599
Changes in noncurrent assets and liabilities	1,744	39
Net cash provided by operating activities	103,124	51,222
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(83,408)	(30,847)
Purchases of property and equipment	(29,268)	(16,117)
Purchases of other long-term assets	(2,922)	(2,409)
Other, net	206	535
Net cash used in investing activities	(115,392)	(48,838)
Cash flows from financing activities:		
Proceeds from issuance of shares	5,148	4,907
Borrowings from revolving credit agreements	1,206,556	1,009,853
Repayments of revolving credit agreements	(1,008,600)	(1,011,830)
Proceeds from long-term debt obligations	9,000	—
Repayments of long-term debt obligations	(2,938)	(3,000)
Repayments of capital lease obligations	(1,231)	(1,383)
Borrowings from short-term debt obligations, net	3,597	—
Purchase of subsidiary shares from noncontrolling interests	—	(7,878)
Other, net	(2,154)	(163)
Net cash provided by (used in) financing activities	209,378	(9,494)
Effect of exchange rate changes on cash and cash equivalents	1,434	(4,460)
Increase (decrease) in cash and cash equivalents	198,544	(11,570)
Cash and cash equivalents at beginning of period	209,826	201,435
Cash and cash equivalents at end of period	$408,370	$189,865

Supplemental disclosure of cash flow information:		
Interest paid during the period	$3,314	$4,017
Income taxes paid during the period	$17,655	$16,992
Supplemental disclosure of non-cash investing and financing activities:		
Equity issued in connection with acquisitions	$56,554	$5,296
Contingent consideration in connection with acquisition	$—	$21,725

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”) was established as a Delaware corporation on December 13, 1997 and succeeded Euronet Holding N.V. as the group holding company, which was founded and established in 1994. 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, 2014, the results of its operations for the three and six months ended June 30, 2014 and 2013 and cash flows for the six months ended June 30, 2014 and 2013. 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, 2013, including the notes thereto, set forth in the Company’s 2013 Annual Report on Form 10-K.

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. 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, 2014.

Seasonality

Euronet’s EFT Processing segment and epay segment are significantly 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. Additionally, mostly in Europe, the EFT Processing business experiences its heaviest demand for dynamic currency conversion services during the third quarter of the fiscal year, coinciding with the tourist 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 Euronet usually experiences its lowest transaction levels during the first quarter of each year.

(2) RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS

Recently Issued

In May 2014, the Financial Accounting Standards Board (“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 promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will become effective for the Company on January 1, 2017 and early adoption is not permitted. 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 a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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Recently Adopted

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). The amendments in ASU 2013-11 provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The Company adopted ASU 2013-11 as of January 1, 2014, and its adoption did not have a material impact on the Company's results of operations, cash flows or financial position.

(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 the potential dilution of options to purchase the Company's common stock and assumed vesting of restricted stock. The following table provides the computation of diluted weighted average number of common shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Computation of diluted weighted average shares outstanding:				
Basic weighted average shares outstanding	51,675,775	49,889,640	51,231,997	49,697,176
Incremental shares from assumed exercise of stock options and vesting of restricted stock	2,097,984	1,628,000	2,047,785	1,425,634
Diluted weighted average shares outstanding	53,773,759	51,517,640	53,279,782	51,122,810

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, 2014 and 2013. 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 674,000 for both the three and six months ended June 30, 2014 and approximately 1,034,000 and 1,078,000 for the three and six months ended June 30, 2013, respectively.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists entirely of foreign currency translation adjustments. The Company recorded a foreign currency translation gain of $4.1 million and $7.3 million for the three and six months ended June 30, 2014, respectively and a foreign currency translation loss of $10.9 million and $28.1 million for the three and six months ended June 30, 2013, respectively. There were no reclassifications of foreign currency translation into the Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013.

(4) ACQUISITIONS

On May 20, 2014, the Company completed the acquisition of all of the capital stock of EIM (FX) Limited and TBK (FM) Limited (the "Acquired Companies") pursuant to a Share Purchase Agreement dated March 7, 2014 (the "Purchase Agreement") among the Company and the selling shareholders (the "Sellers"). The Acquired Companies, each a United Kingdom limited company, operate under the brand names HiFX and HiFM, respectively.

HiFX offers account-to-account international payment services to high-income individuals and small-to-medium sized businesses, complementing Euronet’s existing consumer-to-consumer money transfer business. HiFX has an innovative multi-channel platform which allows customers to make transfers, track payments and manage their international payment activity online or through a customer service representative. HiFM offers cash management solutions and foreign currency risk management services to small-to-medium sized businesses.

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Under the terms of the Purchase Agreement, the Sellers received purchase consideration (the "Purchase Consideration") of £111 million in cash ($186.7 million) and 1,262,654 shares of Euronet common stock, with a fair value at date of acquisition of $56.6 million (the "Consideration Shares"). An amount equal to $16.0 million of the cash portion of the Purchase Consideration and all of the Consideration Shares were 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 two 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 Companies' 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 our results. The net assets of the Acquired Companies and their results from operations are included in the Money Transfer Segment's results.

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

(in thousands)	As of May 20, 2014
Cash and cash equivalents	$103,319
Derivative assets	26,597
Other current assets	2,902
Intangible assets	95,658
Other long-term assets	627
Total assets acquired	229,103
Trade accounts payable	(1,253)
Accrued expenses and other current liabilities	(7,037)
Derivative liabilities	(18,187)
Settlement obligations and customer deposits	(97,781)
Deferred tax liabilities	(21,826)
Other long-term liabilities	(677)
Total liabilities assumed	(146,761)
Goodwill	160,939
Net assets acquired	$243,281

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

(in thousands)	Fair Value	Estimated Useful Life
Proprietary Software	$59,904	10 years
Customer relationships	18,168	8 years
Trade names	15,662	20 years
Non-compete agreements	1,924	3 years
Total intangible assets	$95,658	

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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, 2014 is presented below:

(in thousands)	Acquired Intangible Assets	Goodwill	Total Intangible Assets
Balance as of December 31, 2013	$93,026	$498,435	$591,461
Increases (decreases):			
Acquisition	95,658	160,939	256,597
Amortization	(10,450)	—	(10,450)
Other (primarily changes in foreign currency exchange rates)	3,029	2,661	5,690
Balance as of June 30, 2014	$181,263	$662,035	$843,298

Estimated amortization expense on intangible assets with finite lives, before income taxes, as of June 30, 2014, is expected to total $13.9 million for the remainder of 2014, $23.0 million for 2015, $21.4 million for 2016, $19.1 million for 2017, $16.5 million for 2018 and $15.6 million for 2019.

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, 2013 resulted in the Company recording a non-cash goodwill impairment charge of $18.4 million during the fourth quarter of 2013 with respect to certain reporting units included in the Company's epay segment.

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 2013 annual impairment test could change, which may result in the Company recording additional 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, 2014	December 31, 2013
Accrued expenses	$94,120	$ 84,429
Accrued amounts due to mobile operators and other content providers	50,355	78,398
Money transfer settlement obligations	170,057	49,757
Derivative liabilities	20,093	82
Deferred income taxes	905	618
Total	$335,530	$ 213,284

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(7) DEBT OBLIGATIONS

A summary of debt obligation activity for the six months ended June 30, 2014 is presented below:

(in thousands)	Revolving Credit Facilities	Other Debt Obligations	Capital Leases	Term Loan A	Total
Balance at December 31, 2013	$129,010	$2,403	$5,233	$68,000	$204,646
Increases (decreases):					
Net borrowings (repayments)	197,191	3,597	(1,275)	6,062	205,575
Capital lease interest	—	—	153	—	153
Foreign currency exchange loss (gain)	795	(40)	33	—	788
Balance at June 30, 2014	326,996	5,960	4,144	74,062	411,162
Less — current maturities	—	(5,960)	(2,215)	(4,219)	(12,394)
Long-term obligations at June 30, 2014	$326,996	$—	$1,929	$69,843	$398,768

Credit Facility

As of June 30, 2014, 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 (which has been reduced to $74.1 million through principal amortization payments) ("Term Loan A").

On April 9, 2014, the Company amended and restated the Credit Agreement to, among other things, (i) increase the amount of Term Loan A from $66 million to $75 million, (ii) increase the aggregate credit commitments under the revolving credit facility from $400 million to $600 million, (iii) reduce the margin over the London Inter-Bank Offered Rate (“LIBOR”) rate and base rate by 12.5 basis points, and (iv) extend the expiration date of the Credit Agreement from August 18, 2016 to April 9, 2019. In connection with the amendment, the Company incurred $2.5 million in debt issuance costs, which are being amortized over the term of the Credit Facility.

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 fiscal 2014 was based on a margin over LIBOR or a margin over a base rate, as selected by the Company, with the applicable margin ranging from 1.375% to 2.375% for LIBOR loans or 0.375% to 1.375% for base rate loans. Accordingly, the weighted average interest rate for borrowings outstanding under the Company's revolving credit facility and Term Loan A was 1.71% and 1.52%, respectively, as of June 30, 2014, excluding amortization of deferred financing costs.

(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-currency swaps, to minimize its exposure related to fluctuations in foreign currency exchange rates. As a matter of policy, the derivative instruments used in these activities are deemed economic hedges and are not designated as hedges under Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging, primarily due to either the relatively short duration of the contract term or the effects of fluctuations in currency exchange rates being reflected concurrently in earnings for both the derivative instrument and the transaction and 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, 2014, the Company had foreign currency forward contracts outstanding in the U.S. with a notional value of $127 million, primarily in Australian dollars, Canadian dollars, British pounds, euros and Mexican pesos.

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Foreign currency exchange contracts - HiFX Operations

As discussed in Note 4, Acquisitions, on May 20, 2014, the Company acquired EIM (FX) Limited, which operates under the brand name HiFX. 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 $7.1 million for the three months ended June 30, 2014. All of the derivative contracts used in the Company' s HiFX operations are designated as 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 our positions. The Company manages counterparty credit risk (the risk that counterparties will default and not make payments to us according to the terms of our agreements) on an individual counterparty basis. We mitigate 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. We do 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, 2014 was approximately $810 million. The significant majority of customer contracts are written in major currencies such as the euro, Canadian dollar, British pound, and the 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, 2014	December 31, 2013	Balance Sheet Location	June 30, 2014	December 31, 2013
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	Other current assets	$29,256	$ —	Other current liabilities	$(20,093)	$(82)

The following tables summarize the gross and net fair value of derivative assets and liabilities as of June 30, 2014 and December 31, 2013 (in thousands):

Offsetting of Derivative Assets

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
As of June 30, 2014	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	$29,320	$(64)	$29,256	$(11,195)	$(10,724)	$7,337

agreement

As of December 31, 2013						
Derivatives subject to a master netting arrangement or similar agreement	$96	$(96)	$—	$—	$—	$—

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Offsetting of Derivative Liabilities

As of June 30, 2014	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral Paid	Net Amounts
Derivatives subject to a master netting arrangement or similar agreement	$(20,157)	$64	$(20,093)	$11,195	$5,798	$(3,100)
As of December 31, 2013						
Derivatives subject to a master netting arrangement or similar agreement	$(178)	$96	$(82)	$—	$—	$(82)

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, 2014 and 2013:

		Amount of Loss Recognized in Income on Derivative Contracts (a)			
	Location of Loss Recognized in Income on	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	Derivative Contracts	2014	2013	2014	2013
Foreign currency exchange contracts - Ria Operations	Foreign currency exchange loss (gain), net	$(406)	$(887)	$(1,153)	$(194)

(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 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, 2014			
(in thousands)	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Assets					
Foreign currency exchange contracts	Other current assets	$—	$29,256	$—	$29,256
Liabilities					
Foreign currency exchange contracts	Other current liabilities	$—	$(20,093)	$—	$(20,093)

		As of December 31, 2013			
(in thousands)	Balance Sheet Classification	Level 1	Level 2	Level 3	Total
Liabilities					
Foreign currency exchange contracts	Other current liabilities	$—	$(82)	$—	$(82)

Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents, accounts receivable, trade accounts payable, accrued expenses and other current obligations approximate their fair values because of the relatively short-term maturities of these financial instruments. The carrying values of the Company's long-term debt, including the current portion, approximate fair value because interest is primarily based on LIBOR, which resets at various intervals of less than one year.

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(10) SEGMENT INFORMATION

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

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

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

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

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

The following tables present the Company's reportable segment results for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30, 2014				
(in thousands)	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	$89,472	$181,979	$124,318	$(307)	$395,462
Operating expenses:					
Direct operating costs	41,823	138,522	62,558	(266)	242,637
Salaries and benefits	11,877	13,906	27,943	6,642	60,368
Selling, general and administrative	6,549	11,186	17,546	5,700	40,981
Depreciation and amortization	7,645	4,179	5,458	66	17,348
Total operating expenses	67,894	167,793	113,505	12,142	361,334
Operating income (expense)	$21,578	$14,186	$10,813	$(12,449)	$34,128

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	For the Three Months Ended June 30, 2013				
(in thousands)	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	$72,221	$176,663	$93,357	$(698)	$341,543
Operating expenses:					
Direct operating costs	34,615	135,402	44,961	(683)	214,295
Salaries and benefits	9,569	14,387	21,397	6,399	51,752
Selling, general and administrative	5,433	10,335	13,753	1,936	31,457
Depreciation and amortization	7,653	4,030	4,463	93	16,239
Total operating expenses	57,270	164,154	84,574	7,745	313,743
Operating income (expense)	$14,951	$12,509	$8,783	$(8,443)	$27,800

	For the Six Months Ended June 30, 2014				
(in thousands)	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	$164,077	$367,043	$218,318	$(661)	$748,777
Operating expenses:					
Direct operating costs	79,161	281,863	108,530	(579)	468,975
Salaries and benefits	22,972	27,500	51,253	12,217	113,942
Selling, general and administrative	12,651	20,273	33,691	7,237	73,852
Depreciation and amortization	14,941	8,325	10,091	141	33,498
Total operating expenses	129,725	337,961	203,565	19,016	690,267
Operating income (expense)	$34,352	$29,082	$14,753	$(19,677)	$58,510

	For the Six Months Ended June 30, 2013				
(in thousands)	EFT Processing	epay	Money Transfer	Corporate Services, Eliminations and Other	Consolidated
Total revenues	$135,555	$366,238	$176,260	$(866)	$677,187
Operating expenses:					
Direct operating costs	67,527	282,059	84,633	(837)	433,382
Salaries and benefits	19,214	28,482	41,481	11,302	100,479
Selling, general and administrative	11,281	20,002	26,100	5,077	62,460
Depreciation and amortization	15,969	8,533	9,221	185	33,908
Total operating expenses	113,991	339,076	161,435	15,727	630,229
Operating income (expense)	$21,564	$27,162	$14,825	$(16,593)	$46,958

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

	Property and Equipment, net as of		Total Assets as of	
(in thousands)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
EFT Processing	$73,298	$64,972	$466,399	$347,073
epay	26,327	27,176	639,769	757,942
Money Transfer	25,434	23,768	868,135	472,390

Corporate Services, Eliminations and Other	234	314	20,206	20,710
Total	$125,293	$ 116,230	$1,994,509	$ 1,598,115

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(11) INCOME TAXES

The Company's effective income tax rates were 29.8% and 32.3% for the three months ended June 30, 2014 and 2013, respectively, and 28.4% and 28.1% for the six months ended June 30, 2014 and 2013, respectively. The Company's effective income tax rates for the three and six months ended June 30, 2014 and 2013 were lower than the applicable statutory income tax rate of 35% primarily because of the Company's U.S. income tax positions. The Company does not have a history of significant taxable income in the U.S.; therefore, the Company has recorded a valuation allowance against its U.S. federal tax net operating loss carryforwards. Accordingly, in instances when the Company's U.S. legal entities generate pre-tax U.S. GAAP income, no income tax expense is recognized to the extent there are net operating loss carryforwards to offset pre-tax U.S. GAAP income.

(12) COMMITMENTS

As of June 30, 2014, the Company had $98.3 million of stand-by letters of credit/bank guarantees issued on its behalf, of which $51.3 million are outstanding under the revolving credit facility. The remaining stand-by letters of credit/bank guarantees are collateralized by $5.1 million of cash deposits held by the respective issuing banks.

Under certain circumstances, Euronet grants guarantees in support of obligations of subsidiaries. As of June 30, 2014, the Company had granted off balance sheet guarantees for cash in various ATM networks amounting to $16.3 million over the terms of the cash supply agreements and performance guarantees amounting to approximately $31.6 million over the terms of the agreements with the customers.

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

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

- In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for damage to ATMs and theft of ATM network cash that is not recorded on the Company’s Consolidated Balance Sheets. As of June 30, 2014, the balance of ATM network cash for which the Company was responsible was approximately $428 million. The Company maintains insurance policies to mitigate this exposure;
- In connection with contracts with financial institutions in the EFT Processing Segment, the Company is responsible for losses suffered by its customers and other parties as a result of the breach of its computer systems, including in particular, losses arising from fraudulent transactions made using information stolen through its processing systems. The Company maintains insurance policies to mitigate this exposure;
- In connection with the license of proprietary systems to customers, the Company provides certain warranties and infringement indemnities to the licensee, which generally warrant that such systems do not infringe on intellectual property owned by third parties and that the systems will perform in accordance with their specifications;
- Euronet has entered into purchase and service agreements with vendors and consulting agreements with providers of consulting services, pursuant to which the Company has agreed to indemnify certain of such vendors and consultants, respectively, against third-party claims arising from the Company’s use of the vendor’s product or the services of the vendor or consultant;
- In connection with acquisitions and dispositions of subsidiaries, operating units and business assets, the Company has entered into agreements containing indemnification provisions, which can be generally described as follows: (i) in connection with acquisitions of operating units or assets made by Euronet, the Company has agreed to indemnify the seller against third-party claims made against the seller relating to the operating unit or asset and arising after the closing of the transaction, and (ii) in connection with dispositions made by Euronet, Euronet has agreed to indemnify the buyer against damages incurred by the buyer due to the buyer’s reliance on representations and warranties relating to the subject subsidiary, operating unit or business assets in the disposition agreement if such representations or warranties were untrue when made; and

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- Euronet has entered into agreements with certain third parties, including banks that provide fiduciary and other services to Euronet or to the Company's benefit plans. Under such agreements, the Company has agreed to indemnify such service providers for third-party claims relating to carrying out their respective duties under such agreements.

The Company is also required to meet minimum capitalization and cash requirements of various regulatory authorities in the jurisdictions in which the Company has money transfer operations. The Company has obtained surety bonds in compliance with money transfer licensing requirements of the applicable governmental authorities.

To date, the Company is not aware of any significant claims made by the indemnified parties or third parties to guarantee agreements with the Company and, accordingly, no liabilities were recorded as of June 30, 2014 or December 31, 2013.

(13) LITIGATION AND CONTINGENCIES

Contingencies

Unclaimed property compliance - In September 2013, the Company entered into a voluntary disclosure agreement with the Secretary of State of the State of Delaware to determine compliance with Delaware unclaimed property laws. Types of property under examination include, but are not limited to, payroll checks, accounts payable checks and accounts receivable credits for the period 1996 through 2007. The total amount of exposure of this contingency is dependent upon the manner in which the State of Delaware applies its unclaimed property laws. The Company does not currently expect the outcome of this matter to have a material adverse effect on the Company's consolidated financial condition or results of operations.

Legal Proceedings

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may materially differ from those in the forward-looking statements as a result of various factors, including, but not limited to, conditions in world financial markets and general economic conditions, including economic conditions in specific countries and regions; technological developments affecting the market for our products and services; our ability to successfully introduce new products and services; foreign currency exchange rate fluctuations; the effects of any potential future security breaches; our ability to renew existing contracts at profitable rates; changes in fees payable for transactions performed for cards bearing international logos or over switching networks such as card transactions on ATMs; our ability to comply with increasingly stringent regulatory requirements, including anti-money laundering requirements; changes in laws and regulations affecting our business, including immigration laws; changes in our relationships with, or in fees charged by, our business partners; competition; the outcome of claims and other loss contingencies affecting Euronet; and those other factors referred to above and as set forth and more fully described in Part I, Item 1A — Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013. Our Annual Report on Form 10-K is available on the SEC's EDGAR website at www.sec.gov, and a copy may also be obtained by contacting the Company. All forward-looking statements made in this Form 10-Q speak only as of the date of this report. We do not intend, and do not undertake any obligation, to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

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OVERVIEW

COMPANY OVERVIEW, GEOGRAPHIC LOCATIONS AND PRINCIPAL PRODUCTS AND SERVICES

We are a leading electronic payments provider. We offer payment and transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. Our primary product offerings include comprehensive automated teller machine ("ATM"), point-of-sale ("POS") and card outsourcing services, card issuing and merchant acquiring services; electronic distribution of prepaid mobile airtime and other electronic payment products; and global money transfer services. We operate in the following three segments:

- The EFT Processing Segment, which processes transactions for a network of 19,313 ATMs and approximately 69,000 POS terminals across Europe, the Middle East and Asia Pacific. We provide comprehensive electronic payment solutions consisting of ATM cash withdrawal services, ATM network participation, outsourced ATM and POS management solutions, credit and debit card outsourcing, dynamic currency conversion, and other value added services. Through this segment, we also offer a suite of integrated electronic financial transaction software solutions for electronic payment and transaction delivery systems.
- The epay Segment, which provides distribution, processing and collection services for prepaid mobile airtime and other electronic payment products. We operate a network of approximately 664,000 POS terminals providing electronic processing of prepaid mobile airtime top-up services and other electronic payment products in Europe, the Middle East, Asia Pacific, the United States and South America. We also provide vouchers and physical gift fulfillment services in Europe.
- The Money Transfer Segment, which provides global consumer-to-consumer money transfer services, primarily under the brand name Ria and global account-to-account money transfer services under the brand name HiFX. We offer services under Ria, through a network of sending agents, Company-owned stores (primarily in North America and Europe) and via the Company's website (riamoneytransfer.com), disbursing money transfers through a worldwide correspondent network that includes approximately 235,000 locations. We offer services under HiFX via the Company's website (www.hifx.com) or by contacting a HiFX customer service representative. In addition to money transfers, we also offer customers bill payment services (primarily in the U.S.), payment alternatives such as money orders and prepaid debit cards, comprehensive check cashing services for a wide variety of issued checks, along with competitive foreign currency exchange services and mobile top-up. Under our HiFM brand, we offer cash management solutions and foreign currency risk management services to small-to-medium sized businesses.

We have five processing centers in Europe, four in Asia Pacific and two in North America. We have 31 principal offices in Europe, 11 in Asia Pacific, six in North America, three in the Middle East, two in South America and one in Africa. Our executive offices are located in Leawood, Kansas, USA. With approximately 75% of our revenues denominated in currencies other than the U.S. dollar, any significant changes in foreign currency exchange rates will likely have a significant impact on our results of operations.

SOURCES OF REVENUES AND CASH FLOW

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

EFT Processing Segment — Revenues in the EFT Processing Segment, which represented 23% and 22% of our total consolidated revenues for the second quarter and first half of 2014, respectively, are primarily derived from fees charged for transactions made by cardholders on our proprietary network of ATMs, fixed management fees and transaction fees we charge to customers for operating ATMs and processing debit and credit cards under outsourcing and cross-border acquiring agreements, foreign currency exchange margin on dynamic currency conversion transactions, and other value added services such as advertising, prepaid telecommunication recharges, bill payment, and money transfers provided over ATMs. Revenues in this segment are also derived from license fees, professional services and maintenance fees for proprietary application software and sales of related hardware.

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epay Segment — Revenues in the epay Segment, which represented 46% and 49% of our total consolidated revenues for the second quarter and first half of 2014, respectively, are primarily derived from commissions or processing fees received from mobile phone operators for the processing and distribution of prepaid mobile airtime and commissions earned from the distribution of other electronic payment products, vouchers, and physical gifts. Due to certain provisions in our mobile phone operator agreements, the operators have the ability to reduce the overall commission paid on top-up transactions. However, by virtue of our agreements with retailers (distributors where POS terminals are located) in certain markets, not all of these reductions are absorbed by us because we are able to pass a significant portion of the reductions to retailers. Accordingly, under certain retailer agreements, the effect is to reduce revenues and reduce our direct operating costs resulting in only a small impact on gross profit and operating income. In some markets, reductions in commissions can significantly impact our results as it may not be possible, either contractually or commercially in the concerned market, to pass a reduction in commissions to the retailers. In certain markets, retailers may negotiate directly with the mobile phone operators and prepaid content providers for their own commission rates, which also limits our ability to pass through reductions in commissions. Agreements with mobile operators and prepaid content providers are important to the success of our business. These agreements permit us to distribute prepaid mobile airtime and other electronic payment products to the end consumer. Other electronic payment products offered by this segment include prepaid long distance calling card plans, prepaid Internet plans, prepaid debit cards, gift cards, vouchers, transport payments, lottery payments, bill payment, money transfer and digital content such as music, games and software.

Money Transfer Segment — Revenues in the Money Transfer Segment, which represented 31% and 29% of our total consolidated revenues for the second quarter and first half of 2014, respectively, are primarily derived from transaction fees, as well as the margin earned from purchasing foreign currency at wholesale exchange rates and selling the foreign currency to customers at retail exchange rates. We have a sending network in place comprised of agents, customer service representatives, Company-owned stores, primarily in North America and Europe, and our websites riamoneytransfer.com and www.hifx.com, along with a worldwide network of correspondent agents, consisting primarily of financial institutions in the transfer destination countries. Sending and correspondent agents each earn fees for cash collection and distribution services. These fees are recognized as direct operating costs at the time of sale.

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

OPPORTUNITIES AND CHALLENGES

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

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

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

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

- our ability to develop products or services, including value added services, to drive increases in transactions and revenues;
- the expansion of our various business lines in markets where we operate and in new markets;
- our entry into additional card acceptance and ATM management agreements with banks;

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

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

Software products are an integral part of our product lines, and our investment in research, development, delivery and customer support reflects our ongoing commitment to an expanded customer base.
epay Segment — The continued expansion and development of our epay Segment business will depend on various factors, including, but not necessarily limited to, the following:

- our ability to maintain and renew existing agreements, and to negotiate new agreements in additional markets with mobile phone operators, content providers, agent financial institutions and retailers;
- our ability to use existing expertise and relationships with mobile operators, content providers and retailers to our advantage;
- the continued use of third-party providers such as ourselves to supply electronic processing solutions for existing and additional 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, including consumer shifts between prepaid and postpaid services;
- our market share of the retail distribution capacity;
- the development of new technologies that may compete with POS distribution of prepaid mobile airtime and other products;
- the level of commission that is paid to the various intermediaries in the electronic payment distribution chain;
- our ability to fully recover monies collected by retailers;
- our ability to add new and differentiated products in addition to those offered by mobile operators;
- our ability to develop and effectively market additional value added services;
- our ability to take advantage of cross-selling opportunities with our Money Transfer Segment, including providing money transfer services through our distribution network; and
- the availability of financing for further expansion.

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

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

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

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

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SEGMENT SUMMARY RESULTS OF OPERATIONS

Revenues and operating income by segment for the three and six months ended June 30, 2014 and 2013 are summarized in the tables below:

	Revenues for the Three Months Ended June 30,		Year-over-Year Change		Revenues for the Six Months Ended June 30,		Year-over-Year Change	
(dollar amounts in thousands)	2014	2013	Increase Amount	Increase Percent	2014	2013	Increase Amount	Increase Percent
EFT Processing	$89,472	$72,221	$17,251	24 %	$164,077	$135,555	$28,522	21 %
epay	181,979	176,663	5,316	3 %	367,043	366,238	805	n/m
Money Transfer	124,318	93,357	30,961	33 %	218,318	176,260	42,058	24 %
Total	395,769	342,241	53,528	16 %	749,438	678,053	71,385	11 %
Corporate services, eliminations and other	(307)	(698)	391	n/m	(661)	(866)	205	n/m
Total	$395,462	$341,543	$53,919	16 %	$748,777	$677,187	$71,590	11 %

	Operating Income (Expense) for the Three Months Ended June 30,		Year-over-Year Change		Operating Income (Expense) for the Six Months Ended June 30,		Year-over-Year Change	
(dollar amounts in thousands)	2014	2013	Increase (Decrease) Amount	Increase Percent	2014	2013	Increase (Decrease) Amount	Increase Percent
EFT Processing	$21,578	$14,951	$6,627	44 %	$34,352	$21,564	$12,788	59 %
epay	14,186	12,509	1,677	13 %	29,082	27,162	1,920	7 %
Money Transfer	10,813	8,783	2,030	23 %	14,753	14,825	(72)	n/m
Total	46,577	36,243	10,334	29 %	78,187	63,551	14,636	23 %
Corporate services, eliminations and other	(12,449)	(8,443)	(4,006)	47 %	(19,677)	(16,593)	(3,084)	19 %
Total	$34,128	$27,800	$6,328	23 %	$58,510	$46,958	$11,552	25 %

n/m — Not meaningful

Impact of changes in foreign currency exchange rates

Our revenues and local expenses are recorded in the functional currencies of our operating entities; therefore, amounts we earn outside the U.S. are negatively impacted by the stronger U.S. dollar and positively impacted by the weaker U.S. dollar. Considering the results by country and the associated functional currency, we estimate that our consolidated operating income for the second quarter and first half of 2014 was approximately 5% and 4% higher, respectively, when compared to the same periods of 2013 as a result of changes in foreign currency exchange rates. To provide further perspective on the impact of foreign currency exchange rates, the following table shows the changes in values relative to the U.S. dollar of the currencies of the countries in which we have our most significant operations:

	Average Translation Rate Three Months Ended June 30,		Increase (Decrease) Percent	Average Translation Rate Six Months Ended June 30,		Increase (Decrease) Percent
Currency (dollars per foreign currency)	2014	2013		2014	2013	
Australian dollar	$0.9330	$0.9897	(6)%	$0.9146	$1.0141	(10)%
Brazilian real	$0.4489	$0.4837	(7)%	$0.4362	$0.4923	(11)%
British pound	$1.6833	$1.5360	10 %	$1.6692	$1.5437	8 %

euro	$1.3714	$1.3061	5	%	$1.3708	$1.3133	4	%
Hungarian forint	$0.0045	$0.0044	2	%	$0.0045	$0.0044	2	%
Indian rupee	$0.0167	$0.0179	(7	)%	$0.0165	$0.0182	(10	)%
Polish zloty	$0.3295	$0.3113	6	%	$0.3286	$0.3148	4	%

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COMPARISON OF OPERATING RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

EFT PROCESSING SEGMENT

The following table presents the results of operations for the three and six months ended June 30, 2014 and 2013 for our EFT Processing Segment:

(dollar amounts in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase Percent	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase (Decrease) Percent
Total revenues	$89,472	$72,221	$17,251	24 %	$164,077	$135,555	$28,522	21 %
Operating expenses:								
Direct operating costs	41,823	34,615	7,208	21 %	79,161	67,527	11,634	17 %
Salaries and benefits	11,877	9,569	2,308	24 %	22,972	19,214	3,758	20 %
Selling, general and administrative	6,549	5,433	1,116	21 %	12,651	11,281	1,370	12 %
Depreciation and amortization	7,645	7,653	(8)	n/m	14,941	15,969	(1,028)	(6)%
Total operating expenses	67,894	57,270	10,624	19 %	129,725	113,991	15,734	14 %
Operating income	$21,578	$14,951	$6,627	44 %	$34,352	$21,564	$12,788	59 %
Transactions processed (millions)	320	297	23	8 %	621	573	48	8 %
ATMs as of June 30,	19,313	17,242	2,071	12 %	19,313	17,242	2,071	12 %
Average ATMs	18,993	17,694	1,299	7 %	18,702	17,709	993	6 %

Revenues

Our revenues for the second quarter and first half of 2014 increased when compared to the same periods of 2013, primarily due to an increase in the number of transactions processed in Poland as a result of an increase in the number of ATMs under management, an increase in the number of ATMs in India, an increase in demand for dynamic currency conversion ("DCC") on both our ATMs and POS devices under management, growth in revenues from debit and credit card outsourcing services in Greece and the net impact of the U.S. dollar weakening against key foreign currencies.

Average monthly revenues per ATM were $1,570 for the second quarter and $1,462 for the first half of 2014 compared to $1,361 for the second quarter and $1,276 for the first half of 2013. Revenues per transaction were $0.28 for the second quarter and $0.26 for the first half of 2014 compared to $0.24 for both the second quarter and first half of 2013. These increases were primarily the result of revenue growth from DCC on our ATMs under management, which earns higher revenues per transaction than other ATM or card based services, and the net impact of the U.S. dollar weakening against key foreign currencies.

Direct operating costs

Direct operating costs consist primarily of site rental fees, cash delivery costs, cash supply costs, maintenance, insurance, telecommunications, data center operations-related personnel, as well as the processing centers' facility-related costs and other processing center-related expenses and commissions paid to retail merchants, banks and card processors involved with POS DCC transactions. Direct operating costs increased for the second quarter and first half of 2014 compared to the same periods of 2013, primarily due to an increase in the number of ATMs under management, an increase in demand for DCC on POS devices, growth in revenues from debit and credit card outsourcing services in Greece and the net impact of the U.S. dollar weakening against key foreign currencies.

Gross profit

Gross profit, which is calculated as revenues less direct operating costs, was $47.6 million for the second quarter and $84.9 million for the first half of 2014 compared to $37.6 million for the second quarter and $68.0 million for the first half of 2013. The increase in gross profit was primarily due to growth in revenues from DCC, an increase in ATMs under management in Poland, growth in revenues from debit and credit card outsourcing services in Greece and the net impact of the U.S. dollar weakening against key foreign currencies. Gross profit as a percentage of revenues ("gross margin") was 53.3% for the second quarter and 51.8% for the first half of 2014 compared to 52.1% for the second quarter and 50.2% for the first half of 2013. The

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increase in gross margin was primarily due to growth in revenues from DCC on our ATMs under management, which earns a higher gross profit than other services.

Salaries and benefits

The increase in salaries and benefits for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to additional headcount to support the increase in the number of ATMs under management. As a percentage of revenues, these costs increased slightly to 13.3% for the second quarter of 2014 from 13.2% for same period of 2013, while decreasing slightly to 14.0% for the first half of 2014 from 14.2% for the same period of 2013.

Selling, general and administrative

The increase in selling, general and administrative expenses for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to increased support costs as a result of the increase in the number of ATMs under management and growth in DCC transactions on POS devices. As a percentage of revenues, these expenses decreased slightly to 7.3% for the second quarter and 7.7% for the first half of 2014 from 7.5% for the second quarter and 8.3% for the first half of 2013. These decreases were primarily due to the growth in revenues earned from DCC transactions on our ATMs under management, which require minimal incremental support costs.

Depreciation and amortization

The decrease in depreciation and amortization expense for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to certain software assets becoming fully amortized during 2013, partly offset by an increase in depreciation on our ATMs under management. As a percentage of revenues, depreciation and amortization expense decreased to 8.5% for the second quarter and 9.1% for the first half of 2014 from 10.6% for the second quarter and 11.8% for the first half of 2013, primarily due to the growth in revenues from DCC transactions on our ATMs under management, while depreciation and amortization expense has decreased.

Operating income

The increase in operating income for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to the increase in the number of ATMs under management discussed above, growth in revenues earned from DCC transactions, growth in revenues from debit and credit card management services in Greece, the decrease in amortization expense related to software assets and the net impact of the U.S. dollar weakening against key foreign currencies. Operating income as a percentage of revenues ("operating margin") increased to 24.1% for the second quarter and 20.9% for the first half of 2014 from 20.7% for the second quarter and 15.9% for the first half of 2013. The increase in operating margin was primarily due to growth in revenues earned from DCC on our ATMs under management.

Operating income per transaction increased to $0.07 for the second quarter and $0.06 for the first half of 2014 from $0.05 for the second quarter and $0.04 for the first half of 2013. The increase in operating income per transaction was primarily due to growth in revenues earned from DCC on our ATMs under management and the net impact of the U.S. dollar weakening against key foreign currencies.

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EPAY SEGMENT

The following table presents the results of operations for the three and six months ended June 30, 2014 and 2013 for our epay Segment:

	Three Months Ended June 30,		Year-over-Year Change		Six Months Ended June 30,		Year-over-Year Change	
(dollar amounts in thousands)	2014	2013	Increase (Decrease) Amount	Increase (Decrease) Percent	2014	2013	Increase (Decrease) Amount	Increase (Decrease) Percent
Total revenues	$181,979	$176,663	$5,316	3%	$367,043	$366,238	$805	n/m
Operating expenses:								
Direct operating costs	138,522	135,402	3,120	2%	281,863	282,059	(196)	n/m
Salaries and benefits	13,906	14,387	(481)	(3)%	27,500	28,482	(982)	(3)%
Selling, general and administrative	11,186	10,335	851	8%	20,273	20,002	271	1%
Depreciation and amortization	4,179	4,030	149	4%	8,325	8,533	(208)	(2)%
Total operating expenses	167,793	164,154	3,639	2%	337,961	339,076	(1,115)	n/m
Operating income	$14,186	$12,509	$1,677	13%	$29,082	$27,162	$1,920	7%
Transactions processed (millions)	300	281	19	7%	580	559	21	4%

Revenues

The increase in revenues for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to an increase in the number of non-mobile transactions processed in Germany and the U.K, an increase in voucher redemptions at our cadooz subsidiary and the net impact of the U.S. dollar weakening against key foreign currencies, partly offset by a decrease in prepaid mobile transactions processed in Australia, Brazil and in the U.S. The decrease in the number of prepaid mobile transactions processed in Australia and the U.S. was the result of increased competitive pressures. The decrease in the number of prepaid mobile transactions processed in Brazil was due to the continued impact of changes in certain mobile operators' distribution strategies, which limited our ability to distribute certain products within certain markets in Brazil.

Also, partially offsetting the increase in revenues for the first half of 2014 compared to the same period of 2013 was a decrease in physical gift redemptions at our cadooz subsidiary during the first quarter of 2014 compared to the same period of 2013.

We currently expect most of our future revenue growth in the epay segment to be derived from: (i) additional electronic payment products sold over the base of POS terminals, (ii) valued added services, (iii) developing markets or markets in which there is organic growth in the electronic top-up sector overall, and (iv) acquisitions, if available and commercially appropriate.

Revenues per transaction decreased to $0.61 for the second quarter and $0.63 for the first half of 2014 from $0.63 for the second quarter and $0.66 for the first half of 2013, primarily due to growth in the number of prepaid mobile transactions processed in India, where revenues per transaction are considerably lower than average, and a decrease in the average commission earned per transaction in Australia, Brazil and the U.S. The decrease in revenues per transaction was partly offset by the increase in the number of non-mobile transactions processed in Germany, for which we generally earn higher revenues per transaction than mobile transactions and the net impact of the U.S. dollar weakening against key foreign currencies.

Direct operating costs

Direct operating costs in our epay Segment include the commissions we pay to retail merchants for the distribution and sale of prepaid mobile airtime and other prepaid products, expenses required to operate POS terminals and the cost of vouchers sold and physical gifts fulfilled. The increase in direct operating costs for the second quarter of 2014 compared to the same period of 2013 was primarily due to the increase in non-mobile transactions processed in

Germany and the U.K., an increase in voucher redemptions at our cadooz subsidiary and the net impact of the U.S. dollar weakening against key foreign currencies, partly offset by the decrease in transactions processed in Australia, Brazil and the U.S.

The decrease in direct operating costs for the first half of 2014 compared to the same period of 2013 was primarily due to a decrease in physical gift redemptions during the first quarter of 2014 compared to the same period of 2013, offsetting the increase in direct cost for the second quarter discussed above.

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Gross profit

Gross profit was $43.5 million for the second quarter and $85.2 million for the first half of 2014 compared to $41.3 million for the second quarter and $84.2 million for the first half of 2013. The increase in gross profit was primarily due to growth in non-mobile transactions processed in Germany and the net impact of the U.S. dollar weakening against key foreign currencies, partly offset by the decreases in revenues in Australia, Brazil and the U.S. Also, partially offsetting the increase in gross profit for the first half of 2014 compared to the same period of 2013 was a decrease in physical gift redemptions during the first quarter of 2014 compared to the same period 2013.

Gross margin increased to 23.9% for the second quarter and 23.2% for the first half of 2014 from 23.4% for the second quarter and 23.0% for the first half of 2013. The increases in gross margin was primarily due to growth in non-mobile transactions processed in Germany, partly offset by the decreases in revenues in Australia, Brazil and the U.S.

Salaries and benefits

The decrease in salaries and benefits for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to lower headcount in certain markets and a decrease in bonus expense, partly offset by the net impact of the U.S. dollar weakening against key foreign currencies. As a result, these expenses, as a percentage of revenues, decreased to 7.6% for the second quarter and 7.5% for the first half of 2014 from 8.1% for second quarter and 7.8% for the first half of 2013.

Selling, general and administrative

The increase in selling, general and administrative expenses for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to an increase in bad debt expense and the net impact of the U.S. dollar weakening against key foreign currencies. As a result, these expenses, as a percentage of revenues, increased slightly to 6.1% for the second quarter of 2014 compared to 5.9% for the same period of 2013, while remaining unchanged at 5.5% for both the first half of 2014 and 2013.

Depreciation and amortization

Depreciation and amortization expense primarily represents depreciation of POS terminals we place in retail stores and the amortization of acquired intangible assets. Depreciation and amortization expense increased for the second quarter of 2014 compared to the same period of 2013, primarily due to the U.S. dollar weakening against key foreign currencies. The decrease in depreciation and amortization expense for the first half of 2014 compared to the same period of 2013 was due to certain acquired intangible assets becoming fully amortized during the first quarter of 2013, partly offset by the net impact of the U.S. dollar weakening against key foreign currencies. As a percentage of revenues, these expenses were unchanged at 2.3% for the second quarter and first half of 2014 and 2013.

Operating income

Operating income increased to $14.2 million for the second quarter and $29.1 million for the first half of 2014 from $12.5 million for the second quarter and $27.2 million for the first half of 2013, primarily due to the increase in gross margin discussed above, along with the decrease in salaries and benefits and the net impact of the U.S. dollar weakening against key foreign currencies, partly offset by the increase in bad debt expense. As a result, operating margin increased to 7.8% for the second quarter and 7.9% for the first half of 2014 from 7.1% for the second quarter and 7.4% for the first half of 2013. Operating income per transaction increased slightly to $0.05 for the second quarter of 2014 from $0.04 for the same period of 2013, while operating income per transaction was unchanged at $0.05 for the first half of both 2014 and 2013.

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MONEY TRANSFER SEGMENT

The following table presents the results of operations for the three and six months ended June 30, 2014 and 2013 for the Money Transfer Segment:

(dollar amounts in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Year-over-Year Change Increase Amount	Year-over-Year Change Increase Percent	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Year-over-Year Change Increase Amount	Year-over-Year Change Increase Percent
Total revenues	$124,318	$93,357	$30,961	33 %	$218,318	$176,260	$42,058	24 %
Operating expenses:								
Direct operating costs	62,558	44,961	17,597	39 %	108,530	84,633	23,897	28 %
Salaries and benefits	27,943	21,397	6,546	31 %	51,253	41,481	9,772	24 %
Selling, general and administrative	17,546	13,753	3,793	28 %	33,691	26,100	7,591	29 %
Depreciation and amortization	5,458	4,463	995	22 %	10,091	9,221	870	9 %
Total operating expenses	113,505	84,574	28,931	34 %	203,565	161,435	42,130	26 %
Operating income	$10,813	$8,783	$2,030	23 %	$14,753	$14,825	$(72)	n/m
Transactions processed (millions)	11.5	8.9	2.6	29 %	20.3	17.0	3.3	19 %

Revenues

The increase in revenues for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to an increase in the number of money transfers processed, mostly driven by the launch of our Walmart money transfer product in the U.S. and growth in our agent and correspondent payout networks in non-U.S. markets, the impact of our May 2014 acquisition of EIM (FX) Limited, which operates under the brand name HiFX, and the impact of the euro strengthening against the U.S. dollar.

HiFX facilitates account-to-account foreign exchange solutions, primarily cross-border, cross-currency transactions, for small-to-medium sized businesses and individuals. The majority of HiFX's revenues are earned from foreign currency exchange margin derived from purchasing currencies at wholesale exchange rates and selling currencies to customer at retail exchange rates, which enables customers to make cross-currency payments. In addition, HiFX writes foreign currency forward and cross-currency swap contracts for customers to facilitate future payments.

Revenues per transaction increased to $10.81 for the second quarter and $10.75 for the first half of 2014 from $10.49 for the second quarter and $10.37 for the first half of 2013, primarily due to the euro strengthening against the U.S. dollar and the impact of our acquisition of HiFX, partly offset by the launch of our Walmart money transfer product during the second quarter of 2014, which earns lower revenues per transaction than other money transfer services.

Direct operating costs

Direct operating costs in the Money Transfer Segment primarily represent commissions paid to agents who originate money transfers on our behalf and correspondent agents who disburse funds to the customers’ destination beneficiaries, together with less significant costs, such as bank depository fees. The increase in direct operating costs in the second quarter and first half 2014 compared to the same periods of 2013 was primarily due to growth in the number of money transfer transactions processed in both the U.S. and non-U.S. locations and the euro strengthening against the U.S. dollar.

Gross profit

Gross profit was $61.8 million for the second quarter and $109.8 million for the first half of 2014 compared to $48.4 million for the second quarter and $91.6 million for the first half of 2013. The increase in gross profit was primarily due to growth in the number of money transfer transactions processed in both the U.S. and non-U.S. markets, the impact of our acquisition of HiFX and the euro strengthening against the U.S. dollar. Gross margin decreased to 49.7% for the second quarter and 50.3% for the first half of 2014 from 51.8% for second quarter and 52.0% for the first half of 2013, primarily due to the launch of our Walmart money transfer product in the U.S., which earns a lower gross profit per transaction than other money transfer services, partly offset by the impact of our acquisition of HiFX, which has higher margin transactions.

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Salaries and benefits

The increase in salaries and benefits for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to the impact of our acquisition of HiFX and an increase in headcount as a result of the launch of our Walmart money transfer product, the development of our online money transfer service and expansion of our operations in foreign markets. As a percentage of revenues, salaries and benefits decreased to 22.5% for the second quarter of 2014 from 22.9% for the same period of 2013, primarily due to the increase in the number of money transfers processed in the U.S, which did not require similar increases in support cost. As a percentage of revenues, these expenses were unchanged at 23.5% for both the first half of 2014 and 2013.

Selling, general, and administrative

The increase in selling, general and administrative expenses for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to an increase in professional fees, including acquisition-related costs, an increase in bad debt expense, the impact of our acquisition of HiFX and the euro strengthening against the U.S. dollar. Also contributing to the increase in selling, general and administrative expenses for the first half of 2014 compared to the same period of 2013 was the write-down of certain customer acquisition costs during the first quarter of 2014.

As a percentage of revenues, selling, general and administrative expenses decreased to 14.1% for the second quarter of 2014 from 14.7% for the same period 2013, primarily due to an increase in the number of money transfer processed in the U.S., which did not require similar increases in support costs. As a percentage of revenues, selling, general and administrative expenses increased to 15.4% for the first half of 2014 from 14.8% for the first half of 2013, primarily due to the write-down of certain customer acquisition costs discussed above.

Depreciation and amortization

Depreciation and amortization primarily represents amortization of acquired intangible assets and depreciation of money transfer terminals, computers and software, leasehold improvements and office equipment. For the second quarter and first half of 2014, depreciation and amortization increased compared to the same periods of 2013, primarily due to the amortization of intangible assets related to the acquisition of HiFX. As a percentage of revenues, depreciation and amortization decreased to 4.4% for the second quarter and 4.6% for the first half of 2014 from 4.8% for the second quarter and 5.2% for the first half of 2013, primarily due to the increase in revenues discussed above.

Operating income

The increase in operating income for the second quarter of 2014 compared to the same period of 2013 was primarily due to the increase in the number of money transfers processed, the impact of our acquisition of HiFX and the euro strengthening against the U.S. dollar, partly offset by an increase in professional fees, bad debt expense and salaries and benefits related to development of our online money transfer service. Operating income decreased slightly for the first half of 2014 compared to the same period of 2013 primarily due to the write-down of certain customer acquisition costs during the first quarter of 2014.

As a percentage of revenues, operating margin decreased to 8.7% for the second quarter and 6.8% for the first half of 2014 from 9.4% for the second quarter and 8.4% for the first half of 2013, primarily due to the increase in professional fees, the increase in bad debt expense and the increase in salaries and benefits related to our online money transfer service. Also contributing to the decrease in operating margin for the first half of 2014 compared to the same period of 2013, was the write-down of certain customer acquisition costs discussed above.

Operating income per transaction decreased to $0.94 for the second quarter and $0.73 for the first half of 2014 from $0.99 for the second quarter and $0.87 for the first half of 2013, primarily due to the decrease in operating margin discussed above, which was partly offset by the impact of the euro strengthening against the U.S. dollar.

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CORPORATE SERVICES

The following table presents the operating expenses for the three and six months ended June 30, 2014 and 2013 for Corporate Services:

(dollar amounts in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase Percent	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase Percent
Salaries and benefits	$6,642	$6,399	$243	4 %	$12,217	$11,302	$915	8 %
Selling, general and administrative	5,741	1,951	3,790	194 %	7,319	5,106	2,213	43 %
Depreciation and amortization	66	93	(27)	n/m	141	185	(44)	n/m
Total operating expenses	$12,449	$8,443	$4,006	47 %	$19,677	$16,593	$3,084	19 %

n/m — Not meaningful

Corporate operating expenses

Overall, operating expenses for Corporate Services increased for the second quarter and first half of 2014 compared to the same periods of 2013, primarily due to an increase in acquisition-related costs, the settlement of a dispute related to a prior period potential acquisition and an increase in bonus expenses, resulting from the Company's improved performance.

OTHER EXPENSE, NET

(dollar amounts in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase(Decrease) Percent	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Year-over-Year Change Increase (Decrease) Amount	Year-over-Year Change Increase(Decrease) Percent
Interest income	627	417	210	50 %	1,159	911	248	27 %
Interest expense	(2,442)	(2,575)	133	(5)%	(4,430)	(5,434)	1,004	(18)%
(Loss) income from unconsolidated affiliates	(31)	136	(167)	n/m	(31)	260	(291)	n/m
Foreign currency exchange (loss) gain, net	(3,087)	1,460	(4,547)	n/m	(4,356)	(241)	(4,115)	n/m
Other losses	—	(412)	412	n/m	—	(412)	412	n/m
Other expense, net	$(4,933)	$(974)	$(3,959)	n/m	$(7,658)	$(4,916)	$(2,742)	n/m

n/m — Not meaningful

Interest Income

The increase in interest income for the second quarter and first half of 2014 compared to the same periods of 2013 was primarily due to an increase in interest earned on overnight deposits in Brazil and on customer funds held on deposit related to money transfer operations.

Interest expense

The decrease in interest expense for the second quarter and first half of 2014 compared to the same periods of 2013 was the result of lower average borrowings outstanding under our revolving credit facility during the period.

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Foreign currency exchange (loss) gain, 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. Foreign currency 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 exchange gains or losses are due to the re-measurement of intercompany loans, which are not considered a long-term investment in nature, 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 exchange losses are recognized by 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 exchange gains.

We recorded a net foreign currency exchange loss of $3.1 million and $4.4 million for the second quarter and first half of 2014, respectively, and a net foreign currency exchange gain of $1.5 million and loss of $0.2 million for the second quarter and first half of 2013, respectively. These realized and unrealized net foreign currency exchange gains and losses primarily reflect the fluctuation in the value of the U.S. dollar against the currencies of the countries in which we operate during the respective periods.

INCOME TAX EXPENSE

The Company's effective income tax rates were 29.8% and 32.3% for the second quarter of 2014 and 2013, respectively, and 28.4% and 28.1% for the first half of 2014 and 2013, respectively. The decrease in the effective income tax rate for the second quarter of 2014 compared to the same period of 2013 was due to favorable changes in valuation allowances and an increase in the portion of earnings generated in lower income tax jurisdictions in the second quarter of 2014. There was no material change in the effective income tax rate for the first half of 2014 compared to the same period of 2013.

NET INCOME OR LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS

Noncontrolling interests represents the elimination of net income or loss attributable to the minority shareholders' portion of the following consolidated subsidiaries that are not wholly owned:

Subsidiary	Percent Owned	Segment - Country
Movilcarga	80%	epay - Spain
Euronet China	75%	EFT - China
Euronet Pakistan	70%	EFT - Pakistan
Universal Solutions Partners	51%	EFT - UAE

NET INCOME ATTRIBUTABLE TO EURONET

Net income attributable to Euronet was $20.5 million for the second quarter and $36.5 million for the first half of 2014 compared to $18.1 million for the second quarter and $30.1 million for the first half of 2013. As more fully discussed above, the increase in net income for the first half of 2014 compared to the same period of 2013 was primarily due to an increase in operating income of $11.6 million, an increase in other non-operating income items of $0.8 million and a decrease in interest expense of $1.0 million. These increases to net income were partly offset by an increase in net foreign currency exchange loss of $4.1 million, an increase in income tax expense of $2.6 million and a decrease in income from unconsolidated affiliates of $0.3 million.

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LIQUIDITY AND CAPITAL RESOURCES

Working capital

As of June 30, 2014 and December 31, 2013, we had working capital, which is calculated as the difference between total current assets and total current liabilities, of $186.6 million and $108.4 million, respectively. Our ratio of current assets to current liabilities at June 30, 2014 and December 31, 2013 was 1.24 and 1.15, respectively.

We require substantial working capital to finance operations. In the Money Transfer Segment, we fund the payout of the majority of Ria's consumer-to-consumer money transfers services 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 reporting period ends. As of June 30, 2014, working capital in the Money Transfer Segment was $75.8 million. We expect that working capital needs will increase as we continue to 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. In our EFT Processing Segment, we obtain the majority of the cash required to operate our ATMs through various cash supply arrangements, the amount of which is not recorded on Euronet's Consolidated Balance Sheets. In certain countries, we fund the cash required to operate our ATM network from borrowings under the revolving credit facility and cash flows from operations. As of June 30, 2014, we had approximately $122 million of our own cash in use or designated for use in our ATM network, which is recorded in cash and cash equivalents on Euronet's Consolidated Balance Sheet.

We had cash and cash equivalents of $408.4 million at June 30, 2014, of which $353.8 million was held outside of the United States and is expected to be indefinitely reinvested for continued use in foreign operations. Repatriation of these assets to the U.S. could have negative tax consequences.

The following table identifies cash and cash equivalents provided by/(used in) our operating, investing and financing activities for the six month periods ended June 30, 2014 and 2013 (in thousands):

	Six Months Ended June 30,	
Liquidity	2014	2013
Cash and cash equivalents provided by (used in):		
Operating activities	$103,124	$51,222
Investing activities	(115,392)	(48,838)
Financing activities	209,378	(9,494)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,434	(4,460)
Increase (decrease) in cash and cash equivalents	$198,544	$(11,570)

Operating activity cash flow

Cash flows provided by operating activities were $103.1 million for the first half of 2014 compared to $51.2 million for the first half of 2013. The increase is primarily due to improved operating results and fluctuations in working capital mainly associated with the timing of the settlement processes with mobile operators in the epay Segment and with correspondents in the Money Transfer Segment.

Investing activity cash flow

Cash flows used in investing activities were $115.4 million for the first half of 2014 compared to $48.8 million for the first half of 2013. Cash used for acquisitions was $83.4 million for the first half of 2014 compared to $30.8 million for the first half of 2013. During the first half of 2014, we used $29.3 million for purchases of property and equipment compared to $16.1 million first half of 2013. Cash used for software development and other investing activities totaled $2.7 million for the first half of 2014 compared to $1.9 million for the first half of 2013.

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Financing activity cash flow

Cash flows provided by financing activities were $209.4 million for the first half of 2014 compared to cash flows used in financing activities of $9.5 million for the first half of 2013. Our financing activities for the first half of 2014 consisted of net borrowings of $204.0 million compared to net repayments of debt obligations of $5.0 million for the first half of 2013. The increase in net borrowings during the first half of 2014 compared to the same period of 2013 was the result of cash used from borrowings under our revolving credit facility to fund the acquisitions of EIM (FX) Limited and TBK (FM) Limited and an increase in ATM network cash requirements. Additionally, we had $3.6 million of net borrowings from other short-term debt obligations and $9.0 million of proceeds from the amendment of Term Loan A during the first half of 2014. We used $1.2 million and $1.4 million during the first half of 2014 and 2013, respectively, for capital lease repayments. We used $7.9 million during the first half of 2013 for the acquisition of subsidiary shares from a holder of noncontrolling interests. Further, we received proceeds of $5.1 million and $4.9 million during the first half of 2014 and 2013, respectively, for the issuance of common stock in connection with our Stock Incentive Plan.

Other sources of capital

Credit Facility

As of June 30, 2014, we had a $600 million senior secured credit facility (the "Credit Facility") consisting of a $590 million revolving credit facility, a $10 million India revolving credit facility and an $75 million term loan (which had been reduced to $74.1 million through principal amortization payments) (Term Loan A"). The revolving credit facility allows for borrowings in U.S. dollars, euro, British pound sterling, Australian dollars and/or Indian rupees and contains a $200 million sublimit for the issuance of letters of credit and a $25 million sublimit for swingline loans. We use the revolving credit facility primarily to fund working capital requirements which are expected to increase as we expand the Money Transfer business and our independent ATM network. Based on our current projected working capital requirements, we anticipate that our revolving credit facility will be sufficient to fund our working capital needs.

On April 9, 2014, we amended the Credit Agreement to, among other things, (i) increase Term Loan A from $66 million to $75 million, (ii) increase the aggregate credit commitments under the Company’s revolving credit facility from $400 million to $600 million, (iii) reduce the margin over the London Inter-Bank Offered Rate ("LIBOR") and base rate by 12.5 basis points, and (iv) extend the expiration date of the Credit Agreement from August 18, 2016 to April 9, 2019.

As of June 30, 2014, fees and interest on borrowings varied based upon the Company's consolidated total leverage ratio (as defined in the Company's Amended and Restated Credit Agreement) (the "Credit Agreement") and are based, in the case of letter of credit fees, on a margin, and in the case of interest, on a margin over LIBOR or a margin over the base rate, as selected by us, with the applicable margin ranging from 1.375% to 2.375% for LIBOR loans and 0.375% to 1.375% for base rate loans.

As of June 30, 2014, we had borrowings of $74.1 million outstanding under Term Loan A. We had $327.0 million of borrowings and $51.3 million of stand-by letters of credit outstanding under the revolving credit facility as of June 30, 2014. The remaining $221.7 million under the revolving credit facility was available for borrowing. As of June 30, 2014, our weighted average interest rates under the revolving credit facility and Term Loan A were 1.71% and 1.52%, respectively, excluding amortization of deferred financing costs.

Short-term debt obligations - Short-term debt obligations at June 30, 2014 were primarily comprised of $4.2 million of payments due in the next twelve months under Term Loan A. Certain of our subsidiaries also have available credit lines and overdraft facilities to supplement short-term working capital requirements, when necessary, and there was $6.0 million outstanding under these facilities at June 30, 2014.

Other uses of capital

Capital expenditures and needs - Total capital expenditures for the first half of 2014 were $29.8 million. These capital expenditures were made primarily for the purchase of ATMs in Poland and India, as well as for office, data center and company store computer equipment and software, and POS terminals for the epay Segment. Total capital expenditures for 2014 are currently estimated to range from approximately $50.0 million to $60.0 million.

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 sources, will be sufficient to meet our debt, leasing and capital expenditure obligations. If our capital resources are not sufficient to meet these obligations, we will seek to issue additional debt and/or 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.

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Share repurchase plan

In September 2013, the Board of Directors authorized a stock repurchase program ("2013 Program") allowing Euronet to repurchase up to $100 million in value or 5 million shares of its common stock through September 19, 2015. Repurchases under the 2013 Program may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. There were no repurchases of common stock under the 2013 Program during the second quarter of 2014.

Acquisitions

On May 20, 2014, we completed the acquisition of all of the capital stock of EIM (FX) Limited and TBK (FM) Limited, each a United Kingdom limited company, which operate under the brand names HiFX and HiFM, respectively. Under the terms of the Purchase Agreement, the sellers received purchase consideration (the "Purchase Consideration") of £111 million in cash ($186.7 million) and 1,262,654 shares of Euronet common stock, with a fair value at date of acquisition of $56.6 million (the "Consideration Shares"). An amount equal to $16.0 million of the cash portion of the Purchase Consideration and all of the Consideration Shares were 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 two years following the closing date, net of any pending indemnification or other claims under the Purchase Agreement.

HiFX offers account-to-account international payment services to high-income individuals and small-to-medium sized businesses, complementing Euronet's existing consumer-to-consumer money transfer business. HiFX has an innovative multi-channel platform which allows customers to make transfers, track payments and manage their international payment activity online or through a customer service representative. HiFM offers cash management solutions and foreign currency risk management services to small-to-medium sized businesses.

Other trends and uncertainties

Although Euronet has no direct investments in European sovereign debt, we are indirectly exposed to its risks. Many of the customers of our EFT Processing Segment are banks who may hold investments in European sovereign debt. To the extent those customers are negatively impacted by those investments, they may be less able to pay amounts owed to us or renew service agreements with us. Further, to the extent that sovereign debt concerns depress economic activity, such concerns may negatively impact the number of transactions processed on our epay, EFT and money transfer networks, resulting in lower revenues.

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 our subsidiaries and we sometimes enter into agreements with commercial counterparties 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, 2014, there were no material changes from the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2013. 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, 2014. See also Note 12, Commitments, to the unaudited consolidated financial statements included elsewhere in this report.

CONTRACTUAL OBLIGATIONS

As of June 30, 2014, our future contractual obligations have not changed significantly from the amounts reported within our 2013 Form 10-K with the exception of our amendment to Credit Facility. See the discussion under "Liquidity and Capital Resources - Other Sources of Capital - Credit Facility" above for additional information.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

As of June 30, 2014, our total debt outstanding was $411.2 million. Of this amount, $407.1 million, or 99% 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, a 1% (100 basis points) increase in the applicable interest rate would result in additional annual interest expense to the Company of approximately $6.2 million.

The remaining $4.1 million, or 1% of our total debt obligations, relates to capitalized leases with fixed payment and interest terms that expire between 2014 and 2018.

Our excess cash is invested in instruments with original maturities of three months or less or in certificates of deposit that may be withdrawn at any time without penalty; 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 2014, 75% of our revenues were generated in non-U.S. dollar countries and 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 Australian dollar, Brazilian real, British pound, euro, Indian Rupee, Hungarian forint and Polish zloty. As of June 30, 2014, 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 $30 million to $35 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 exchange 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 $75 million to $80 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 customers at retail exchange rates. We enter into foreign currency forwards and cross-currency swaps, to minimize exposure related to fluctuations in foreign currency exchange rates. As of June 30, 2014, we had foreign currency derivative contracts outstanding with a notional value of $937 million, primarily in Australian dollars, British pounds, Canadian dollars, euros and Mexican pesos, that were not designated as hedges and mature within the next twelve months. See Note 8, Derivative Instruments and Hedging Activities to our Consolidated Financial Statements for additional information.

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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, 2014. 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 have not been any changes in internal control over financial reporting during the three months ended June 30, 2014 that have materially affected, or are 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 legal or regulatory proceedings arising in the ordinary course of its business.

The discussion regarding contingencies in Part I, Item 1 — Financial Statements (Unaudited), Note 13, Litigation and Contingencies, to the unaudited consolidated financial statements in this report is incorporated herein by reference. Currently, there are no other legal or regulatory proceedings that management believes, either individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial condition or results of operations. In accordance with U.S. GAAP, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These liabilities are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case or proceeding.

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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, 2013, as may be updated in our subsequent filings with the SEC, before making an investment decision. Our operations are subject to a number of risks and uncertainties, including the risks and uncertainties described in our Annual Report on Form 10-K, as may be updated by any subsequent Quarterly Reports on Form 10-Q, including this Form 10-Q. If any of the risks identified in our Annual Report on Form 10-K, as may be 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. Except as set forth below, 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, 2013 as filed with the SEC.

We rely on third party financial institutions to provide us with the majority of the cash required to operate our ATM networks in certain countries. If these institutions were unable or unwilling to provide us with the cash necessary to operate our ATM networks, we would be required to locate additional alternative sources of cash to operate these networks.

In our EFT Processing Segment, we primarily rely on third party financial institutions in certain countries in Europe and Asia Pacific to provide us with the cash required to operate our ATM networks. Under our agreements with these providers, we pay fees or interest, which is generally variable and could increase, based on the total amount of cash we are using from such provider at a given time, as well as other costs such as bank fees and cash transportation costs. As of June 30, 2014, the amount of cash used in our ATM networks under these supply agreements was approximately $428 million. Before the cash is disbursed to ATM customers, beneficial ownership of the cash is generally retained by the cash providers, and we have no access or proprietary rights to the cash.

Our existing agreements with cash providers are generally multi-year agreements that expire at various times over the next few years. However, each provider may have the right to demand the return of all or any portion of its cash at any time upon the occurrence of certain events beyond our control, including certain bankruptcy events affecting us or our subsidiaries, or a breach of the terms of our cash provider agreements. Other key terms of our agreements include the requirement that the cash providers provide written notice of their intent not to renew. Such notice provisions typically require a minimum notice period prior to the actual termination date. If such notice is not received, the agreements will typically automatically renew for an additional period.

If any of our cash supply providers were to demand return of their cash or terminate their agreements with us and remove their cash from our ATM devices, or if they fail to provide us with the cash our operations require, our ability to operate the ATM networks to which the provider supplies cash would be jeopardized, and we would need to locate additional alternative sources of cash, including, potentially the increased use of our own cash. Under those circumstances, the terms and conditions of the new or renewed agreements could potentially be less favorable to us, which would negatively impact our results of operations. Furthermore, restrictions on our access to cash to supply our ATMs could severely restrict our ability to keep our ATMs operating, which could subject us to performance penalties under our contracts with our customers.

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

The following table provides information with respect to shares of Company's common stock that were purchased during the three months ended June 30, 2014.

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs (2)
April 1 - April 30, 2014	—		$—	—	$100,000,000
May 1 - May 31, 2014	4,714	(1)	46.67	—	100,000,000
June 1, 2014 - June 30, 2014	—		—	—	100,000,000
Total	4,714		$—	—	

(1) Represents shares surrendered during May 2014 by a participant in the Euronet Stock Incentive Plan in payment of the exercise price of stock options.
(2) In September 2013, the Board of Directors authorized a stock repurchase program allowing Euronet to repurchase up to $100 million in value or 5 million shares of its common stock through September 19, 2015. Repurchases may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. There were no repurchases of common stock under this program during the second quarter of 2014.

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ITEM 6. EXHIBITS

Exhibit	Description
10.1	Amendment No. 1 dated April 9, 2014, to the Amended and Restated Credit Agreement dated as of August 18, 2011 among Euronet Worldwide, Inc., and certain Subsidiaries and Affiliates, as Borrowers, certain Subsidiaries and Affiliates as Guarantors, the Lenders, Bank of America, N.A., as Administrative Agent and Collateral Agent, U.S. Bank National Association, BMO Capital Markets and BBVA Compass Bank, as Syndication Agent and Wells Fargo as Documentation Agent.as Syndication Agent and Wells Fargo as Documentation Agent (filed as Exhibit 10.1 to to the Company's Quarterly Report on Form 10-Q filed on May 2, 2014 (File No. 001-31648) and incorporated herein by reference).
12.1*	Computation of Ratio of Earnings to Fixed Charges
31.1*	Section 302 — Certification of Chief Executive Officer
31.2*	Section 302 — Certification of Chief Financial Officer
32.1**	Section 906 — Certification of Chief Executive Officer
32.2**	Section 906 — Certification of Chief Financial Officer
101*	The following materials from Euronet Worldwide, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2014 (unaudited) and December 31, 2013, (ii) Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 30, 2014 and 2013, (iv) Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2014 and 2013, and (v) Notes to the Unaudited Consolidated Financial Statements.

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

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 6, 2014

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