



Secure Financial Transactions — Any Time, Any Place

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Technical Director  
File Reference No. 1204-001  
Financial Accounting Standards Board  
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Thank you for the opportunity to comment on the Proposed Statement of Financial Accounting Standards (SFAS), *Business Combinations*, a replacement of FASB Statement No. 141.

Euronet Worldwide, Inc. (Euronet) is a medium-sized public company that has experienced significant growth over the last three years, partly through acquisitions. A substantial majority of our operations is outside the United States and many of our acquisitions have involved purchases of interests in European companies. Therefore, we can appreciate the efforts of the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) to implement a single approach to accounting for business combinations. However, the conclusions and decisions reached by the FASB have far reaching implications. We believe the proposed changes in accounting for acquisitions will reduce the usefulness of companies' statements of income, particularly for companies such as Euronet that have been relatively acquisitive.

Recent FASB pronouncements have been increasingly complex (for example SFAS No. 123R, *Share-Based Payment*), are more challenging to interpret and apply, and are possibly more theoretical than practical. These recent pronouncements have possibly degraded the quality of financial reporting for the intended readers. We believe the FASB has a role in, and responsibility for, improving accounting — including its simplicity and practicality. If the proposed changes in accounting for acquisitions fit either of these objectives, we have simply failed to see it. Rather, the proposed changes only complicate an already complicated area (i.e., business combinations), produce greater confusion, fail to reflect realistic economics and are at odds with several basic accounting principles.

If the accounting literature outlined in the exposure draft is adopted, financial statement usefulness will suffer and the FASB's attempt to converge the treatment of business combinations among U.S. companies will be unsuccessful due to the level of complexity inherent in the revised rules, the judgment required to apply them and the non-operational/out of period impacts on the statement of income resulting from the application of this proposed accounting standard. In practice, diversity will result.

As requested in the exposure draft, our other comments are summarized by topic below.

*Question #1 – Are the objectives and definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?*

Based on Euronet's experience in acquiring small, non-public companies, there are usually very few marketplace participants to utilize for the determination of the value of various intangible assets from a hypothetical marketplace view. The purchase price for acquisitions such as these are based on discounted future cash flow techniques and, basically, an agreement between a willing buyer and willing seller. Therefore, if the FASB is going to require companies to compute fair value from the view of a hypothetical marketplace participant, the FASB should incorporate additional guidance into the pronouncement on how the marketplace participant should be determined. Assigning hypothetical value to an acquired asset that a company has no intent on using (such as a trademark or trade name) and recording an impairment loss for the subsequent abandonment of the asset does not reflect the economics of the transaction, particularly if such assets were disregarded in the computation of future cash flows and determination of the purchase price.

We believe that "buyer-specific intent" remains more relevant in accounting for a majority of business combinations. If the valuation and acquisition of a company involves very little competition and certain intangible assets have been disregarded in the computation of the purchase price, the FASB should continue to allow companies to assign value only to assets that will be utilized.

*Question #5 – Is the acquisition date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? and  
Question #6 – Is the accounting for contingent consideration after the acquisition date appropriate?*

We respectfully submit that the FASB's conclusion regarding the treatment of contingent consideration does not reflect the underlying economics of acquisitions. In many of Euronet's acquisitions, contingent "earn-out" arrangements have been the optimal means available to reach fair market value agreement between the Company and the acquiree. Requiring that companies: a) record the fair value of this obligation and b) adjust the value through earnings introduces significant uncertainty to the statement of income. During negotiations, if the individuals closest to the situation (the acquirer and acquiree) cannot agree on a fair value for an acquisition, we challenge how the issuance of new accounting rules is expected to resolve this inherent uncertainty. These items cannot be reliably estimated. As proposed by the FASB, post-acquisition changes in earn-outs and contingency estimates will be required to be recognized through the income statement. Aside from the fact that such change in estimate has no relationship to the current period's earnings, post-acquisition changes will be as challenging and impractical to estimate as the original estimates. Furthermore, under the provisions of the exposure draft, within the allocation period, management is required to determine whether changes in the fair value of contingent consideration relate to circumstances that existed as of the acquisition date, or if changes relate to developments subsequent to the acquisition date. While this sounds practical in theory, in application this practice will require significant judgment that will almost certainly have a material impact on the recording of the transaction. Moreover, such accounting requirements will likely orient business managers, accountants and audit committees to practice conservative approaches which could lead to over-estimating contingencies and earn-outs, if for no other reason than to limit the adverse impact to future income statements. We do not believe the outcome of either a positive or negative adjustment to the income statement for acquisition purchase price adjustments reflects true economics or the reality of the current operations.

In paragraph B83 of the exposure draft, the FASB acknowledges that, in certain circumstances, information may not be available to conclusively determine fair value of contingent consideration. We can firmly say based on actual experience that this conclusion will apply to most acquisitions.

We believe that the accounting and disclosure requirements in SFAS No. 141 are sufficient for the treatment of “earn-out” arrangements and other contingent consideration. Contingent consideration should continue to be reflected as an adjustment to the purchase price at the date at which amounts are determined beyond a reasonable doubt, more accurately reflecting the economics of the transaction. If it’s the Board’s desire to have the liabilities reflected on the balance sheet, we would not disagree. We would support a lesser requirement such as the recording of a liability at the time a reasonable estimate can be made, with subsequent true-ups recorded to the liability and purchase price accounts, which will in turn be subject to impairment considerations.

*Question #7 – Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree?*

We disagree with the FASB’s conclusion regarding the treatment of transaction costs. For acquisitions, certain costs, such as the drafting of legal agreements, conducting due diligence and other registration costs are directly attributable to and necessary for the acquisition. Therefore, regardless of the acquirer, the transaction cannot be completed without incurring incremental transaction costs. We view these costs similar to the installation of a machine, the securing of capital and the development of systems. A requirement to treat such costs as expense provides a regretful incentive for companies to curb such costs at the expense of thorough research and due diligence and ultimately, the shareholders’ best interests. Direct attribution and future benefit should continue to guide the accounting for deal costs. Clearly, unsuccessful deal costs should be expensed when the deal is determined to be unsuccessful. This treatment is both consistent with the FASB’s desire to record acquisitions at fair value, since the costs would be incurred by any market participant, and the treatment of theoretical similar costs incurred to ready equipment or other assets for their intended use.

*Question #8 – Do you believe that these proposed changes to the accounting for business combinations are appropriate? (Comment below relates to the FASB’s amendment of SFAS No. 5, Accounting for Contingencies.)*

The proposed treatment of contingencies represents an exception to currently applicable GAAP. In the Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting, the SEC has encouraged the FASB to issue rules with minimal exceptions and conceptual inconsistency to a “coherent conceptual framework of financial reporting.” The concepts contained in SFAS No. 5 are pervasive and long-standing throughout existing accounting rules and theory, and have been reiterated in the Proposed Interpretation of FASB Statement 109, Uncertain Tax Positions, which proposes the application of SFAS No. 5 requirements to uncertain tax positions. The proposed rules requiring the recognition of a probability-based contingency will result in the recording of a liability, regardless of whether an unfavorable outcome is considered probable. Investors and other financial statement users would be better served by the recording of the most likely outcome, subject to adjustment throughout the allocation period, rather than creating an inevitable income statement adjustment for such

contingencies in future periods. Furthermore, consistent with our previous comments, the proposed new rules require the use of substantial judgment, likely resulting in less consistency among financial statement preparers. If consistent estimates of these situations cannot be reasonably produced, we question how these estimates can be consistently audited and how readers of the financial statements can take confidence in their recording.

We recommend that all contingencies, whether originating through acquisition or otherwise, continue to be recorded and disclosed in accordance with SFAS No. 5. We would support the recording of a liability for contingencies when reasonably determinable, but with the related adjustments going to the same balance sheet accounts, not through the income statement.

*Question #10 – Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? (Step Acquisitions)*

Another long-standing basic principle in GAAP has been the recording of certain assets at the lower of cost or market. The FASB's proposal to recognize a gain or loss in a step acquisition seems inconsistent with this reasonable and pervasive concept. We do not believe recognition of a gain for a non-cash, unrealized benefit strengthens the usefulness of a GAAP-based income statement.

We recommend that the accounting for step acquisitions remain unchanged so that the value of an investment acquired in a step acquisition is recorded at the lower of the assets cost or fair market value.

*Question #13 – Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments?*

We believe that adjusting the financial statement of prior periods would cause confusion to the reader of the financial statements. Adjusting prior period financial statements for changes to the allocation of an acquisition purchase price to the assets acquired alters the existing and long-standing accounting principles for changes in accounting estimates outlined in APB No. 20, *Accounting Changes*. Such changes are to be recorded in the period of change if the change affects that period only, or in the period of change and future periods if the change affects both. Under APB No. 20, retroactive adjustment is prohibited. Restatement of prior periods will reduce the confidence investors and other financial statement users place on reported results and, more importantly, will complicate management's communications to shareholders. Investors and other financial statement users have been educated to recognize that restatement of prior period results is normally an indicator of ineffective financial reporting controls. The proposed standard provides for the restatement of prior period financial statements for normal, unavoidable events. This change represents a significant adverse shift in the investment community's ability to understand the financial results of the companies in which they invest or follow.

The concepts outlined in APB No. 20 should remain unchanged and financial statements of prior years should only be adjusted for very limited situations, such as changes in accounting principle or for the correction of an error. Except for these limited circumstances, the sanctity of previously issued financial statements should not be breached.

To summarize, Euronet foresees the implementation of guidance contained in the exposure draft to have multiple, unpredictable and potentially inconsistent impacts on companies' statements of income. The potential to recognize material, non-cash, unrealized gains and losses in the income statement will challenge companies to appropriately communicate important, ongoing results of operations to investors and other financial statement users. The potential increased volatility has been acknowledged by the FASB in paragraph B86 of the exposure draft as an "acceptable consequence" to the adoption of revised accounting rules for business combinations. We question how the FASB can so easily accept the notion that the most useful statement to financial statement users, the statement of income, will be reduced to unpredictable and meaningless swings and diluted quality. Additionally, we believe that an unintended consequence of the finalization of this standard will an expanded usage and discussion of non-GAAP measures by publicly held companies to effectively communicate meaningful financial results to investors and other financial statement users. This expanded usage of non-GAAP measures for the income statement items proposed in this exposure draft and other impacts, such as stock-based compensation accounting, creates questions regarding the usefulness of GAAP-based results and is not encouraged by the Securities and Exchange Commission.

In conclusion, we strongly encourage the Board to reconsider the guidance contained in this exposure draft, primarily the income statement recognition of transaction-related fees and post-acquisition changes in contingency related matters. If you would like to discuss this further, please contact me at 913-327-4200.

Sincerely,



Rick L. Weller  
Chief Financial Officer

cc: KPMG LLP, Kansas City