EURONET WORLDWIDE INC
Form 10-Q
August 06, 2012

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

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

For the quarterly period ended June 30, 2012
OR

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No o

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

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

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

The number of shares of the issuer's common stock, $0.02 par value, outstanding as of July 31, 2012 was 50,830,210 shares.

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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
EURONET WORLDWIDE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share and per share data)

	As of June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$178,554	$ 170,663
Restricted cash	71,106	73,305
Inventory — PINs and other	75,852	98,819
Trade accounts receivable, net of allowances for doubtful accounts of $17,210 at June 30, 2012 and $14,787 at December 31, 2011	286,721	349,543
Prepaid expenses and other current assets	71,820	61,640
Total current assets	684,053	753,970
Property and equipment, net of accumulated depreciation of $190,190 at June 30, 2012 and $175,875 at December 31, 2011	108,033	102,900
Goodwill	485,495	488,628
Acquired intangible assets, net of accumulated amortization of $128,549 at June 30, 2012 and $129,119 at December 31, 2011	89,613	99,878
Other assets, net of accumulated amortization of $21,807 at June 30, 2012 and $19,529 at December 31, 2011	58,499	60,953
Total assets	$1,425,693	$ 1,506,329
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$318,258	$ 351,360
Accrued expenses and other current liabilities	175,560	216,794
Current portion of capital lease obligations	1,928	2,178
Short-term debt obligations and current maturities of long-term debt obligations	175,571	170,654
Income taxes payable	4,321	5,228
Deferred revenue	26,813	28,272
Total current liabilities	702,451	774,486
Debt obligations, net of current portion	140,757	161,694
Capital lease obligations, net of current portion	3,076	4,249
Deferred income taxes	24,256	26,003
Other long-term liabilities	12,429	13,152
Total liabilities	882,969	979,584
Equity:		
Euronet Worldwide, Inc. stockholders’ equity:		
Preferred Stock, $0.02 par value. 10,000,000 shares authorized; none issued	—	—
Common Stock, $0.02 par value. 90,000,000 shares authorized; 52,413,515 issued at June 30, 2012 and 51,982,227 issued at December 31, 2011	1,048	1,040
Additional paid-in-capital	774,808	766,221
Treasury stock, at cost, 1,590,477 shares at June 30, 2012 and 1,543,441 shares at December 31, 2011	(22,764)	(21,869)

Accumulated deficit	(185,631)	(204,550)
Restricted reserve	1,016	1,001
Accumulated other comprehensive loss	(30,290)	(21,408)
Total Euronet Worldwide, Inc. stockholders’ equity	538,187	520,435
Noncontrolling interests	4,537	6,310
Total equity	542,724	526,745
Total liabilities and equity	$1,425,693	$ 1,506,329

See accompanying notes to the unaudited consolidated financial statements.

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EURONET WORLDWIDE, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited, in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	$302,377	$279,802	$599,999	$542,395
Operating expenses:				
Direct operating costs	192,589	175,392	386,587	346,276
Salaries and benefits	44,809	43,758	89,075	80,093
Selling, general and administrative	29,027	27,073	56,667	50,286
Depreciation and amortization	16,098	14,779	31,974	29,723
Total operating expenses	282,523	261,002	564,303	506,378
Operating income	19,854	18,800	35,696	36,017
Other income (expense):				
Interest income	1,306	1,472	2,616	2,587
Interest expense	(5,579)	(5,171)	(11,059)	(10,506)
Income from unconsolidated affiliates	278			

(1) Includes amounts deferred at the direction of the executive officers pursuant to a U.S. Bancorp 401(k) savings plan and, if applicable, our deferred compensation plan.

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(2) Reflects bonus earned during the fiscal year. In some instances, all or a portion of the bonus was paid during the subsequent fiscal year. Except as provided in note 3 below, no bonuses were paid to the named executive officers for 2001.

(3) Paid pursuant to an employment agreement that expired April 30, 2001.

(4) Perquisites that do not exceed the lesser of $50,000 or 10% of the total salary and bonus for any of the executive officers have been omitted.

(5) Includes (a) travel expenses of $34,562 in 2001, $43,132 in 2000, and $18,600 in 1999; and (b) financial planning expenses of $22,825 in 2001, $7,699 in 2000, and $7,061 in 1999.

(6) Includes travel expenses of $48,787 in 2001, $50,711 in 2000, and $48,648 in 1999.

(7) The value of each executive officer's restricted stock or restricted stock units included in this column is determined by multiplying the closing market price of our common stock on the respective dates of grant of the awards by the number of shares or units awarded. The named executive officers held shares of restricted stock or restricted stock units as of December 31, 2001, with market values as of that date (calculated by multiplying the closing market price of our common stock on that date by the total number of restricted shares or units held by each officer) as follows: Mr. Jerry A. Grundhofer, 300,268 units valued at $6,284,609; Mr. John F. Grundhofer, 100,000 shares valued at $2,093,000; Mr. Davis, 51,308 shares valued at $1,073,876; Mr. Moffett, 51,308 shares valued at $1,073,876; and Mr. Duff, 108,483 shares valued at $2,270,549. Messrs. John F. Grundhofer, Davis, Moffett and Duff have the right to receive dividends on the shares of restricted stock held by them.

(8) Mr. Jerry A. Grundhofer was granted 300,268 restricted stock units on January 2, 2002, having a value of $5,600,000, pursuant to the terms of his October 16, 2001 employment agreement. The number of restricted stock units awarded was determined by dividing $5,600,000 by $18.65, the average New York Stock Exchange closing price of our common stock during the 60-trading-day period

ending on December 31, 2001. The amount stated in the table is the value on the date of grant. The award will vest in full on December 31, 2006, and vested shares will be delivered by U.S. Bancorp to Mr. Jerry A. Grundhofer on January 15 of the calendar year following the calendar year in which his employment with U.S. Bancorp and all affiliates terminates or sooner, if deductible pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. Mr. Jerry A. Grundhofer also is entitled to receive, on each of U.S. Bancorp's dividend payment dates, additional restricted stock units having a fair market value equal to the amount of the dividends he would have received had he been awarded restricted stock rather than restricted stock units. These additional restricted stock units vest on the same basis as the restricted stock units granted in the underlying award.

(9) Mr. John F. Grundhofer was granted 100,000 shares of restricted stock on February 27, 2001, vesting in four equal, annual installments on each of the first four anniversaries of the date of grant.

(10) Each of Messrs. Davis, Moffett and Duff was granted 51,308 shares of restricted stock on December 18, 2001, of which 25,654 shares vest two years after the date of grant, 12,827 shares vest three years after the date of grant, and 12,827 shares vest four years after the date of grant. The number of shares awarded to each of Messrs. Davis, Moffett and Duff was determined by dividing $1,000,000 by the average closing price of our common stock for the 10 consecutive trading days ended December 17, 2001. The 10-trading-day average closing price of our common stock on December 17, 2001 was $19.49.

(11) Includes (a) a $5,100 matching corporate contribution made by U.S. Bancorp to Mr. Jerry A. Grundhofer's account in the U.S. Bancorp 401(k) Savings Plan; (b) $3,544 in split-dollar life

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insurance premiums paid by U.S. Bancorp for the benefit of Mr. Jerry A. Grundhofer; and (c) $81,169 in moving expenses.

(12) Includes (a) a $6,800 matching corporate contribution made by U.S. Bancorp to Mr. John F. Grundhofer's account in the U.S. Bancorp 401(k) Savings Plan; (b) $24,500 in life insurance premiums paid by U.S. Bancorp for the benefit of Mr. John F. Grundhofer; and (c) $33,716 paid pursuant to our flexible compensation program (net of amounts used to purchase benefits), $10,500 of which was applied to Mr. John F. Grundhofer's 401(k) Savings Plan account and $23,216 of which was paid in cash.

(13) Includes (a) a $5,100 matching corporate contribution made by U.S. Bancorp to Mr. Davis' account in the U.S. Bancorp 401(k) Savings Plan; and (b) $504 in split-dollar life insurance premiums paid by U.S. Bancorp for the benefit of Mr. Davis.

(14) Includes (a) a $5,100 matching corporate contribution made by U.S. Bancorp to Mr. Moffett's account in the U.S. Bancorp 401(k) Savings Plan; (b) $789 in split-dollar life insurance premiums paid by U.S. Bancorp for the benefit of Mr. Moffett; and (c) $102,299 in moving expenses.

Option Grants in Last Fiscal Year

We provide a substantial portion of long-term incentive compensation to our executive officers in the form of stock options. The following table provides information on the stock options granted during fiscal year 2001 to the executive officers named above in the Summary Compensation Table.

Option Grants in Last Fiscal Year

	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	Grant Date Present Value ($)[3]
Jerry A. Grundhofer	1,000,000[1]	1.5	19.23	12/18/11	6,400,000
John F. Grundhofer	2,400,000[2]	3.7	23.34	2/27/11	17,184,000
Richard K. Davis	260,000[1]	0.4	19.23	12/18/11	1,664,000
David M. Moffett	260,000[1]	0.4	19.23	12/18/11	1,664,000
Andrew S. Duff	170,000[2]	0.3	23.34	2/27/11	1,217,200

(1) These options become exercisable in four equal, annual installments on each of December 18, 2002, 2003, 2004 and 2005.

(2) For Mr. John F. Grundhofer, these options become exercisable on the earlier of his retirement or in four equal, annual installments on each of February 27, 2002, 2003, 2004 and 2005. For Mr. Duff, these options become exercisable in four equal, annual installments on each of February 27, 2002, 2003, 2004 and 2005.

(3) In accordance with rules of the Securities and Exchange Commission, the Black-Scholes option pricing model was chosen to estimate the grant date value of the options set forth in this table. Use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option models require predictions about the future movement of the stock price. The following underlying assumptions were used to develop the grant date valuations: risk-free rates of return of 4.93% to 4.97%; a dividend rate of 3.2%, volatility rates of 33.50% to 37.27%, quarterly reinvestment of dividends, and an average term of seven years. No adjustments have been made for nontransferability or risk of forfeiture. The real value of the options in this table will depend on the actual performance of our common stock during the applicable period and on the date the options are exercised.

Aggregated Option Exercises in Fiscal Year 2001 and Fiscal Year-End Option Values

The following table summarizes information with respect to stock option exercises by the executive officers named in the Summary Compensation Table above during fiscal year 2001 and the value of stock options held by these officers at the end of fiscal year 2001.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

	Shares Acquired on Exercise (#)	Value Realized ($)[1]	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options at Fiscal Year-End ($)[2]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jerry A. Grundhofer	123,685	2,282,050	4,550,466	2,832,500	46,709,932	1,700,000
John F. Grundhofer			4,050,751	2,400,000		
Richard K. Davis			1,091,228	1,032,500	6,703,165	442,000
David M. Moffett	100,296	2,121,022	1,017,500	1,032,500	5,437,499	442,000
Andrew S. Duff			502,018	338,667	899,816	580,214

(1) Value determined by subtracting the exercise price per share from the market value per share of our common stock on the date of exercise.

(2) Value determined by subtracting the exercise price per share from the market value per share of our common stock as of the last day of fiscal year 2001.

Defined Benefit Pension Plans

Compensation in the form of payments from our non-contributory defined benefit pension plans is not reflected in the compensation tables above. Effective January 1, 2002, we established a new non-contributory defined benefit plan, which we call the "U.S. Bancorp Pension Plan," created through the merger of the former U.S. Bancorp's career average pay defined benefit plan, known as the "Cash Balance Pension Plan," which also contained final average pay components, and the former Firstar Corporation's non-contributory defined benefit plan, which contained both career average pay and final average pay components. Under the new plan, benefits will be calculated using a final average pay formula, based upon the employee's years of service and average salary during the five consecutive years of service in which compensation was the highest during the 10 years prior to retirement, with a normal retirement age of 65. Substantially all employees are eligible to receive benefits under the U.S. Bancorp Pension Plan. Participation requires one year of service with U.S. Bancorp and its affiliates.

Although no new benefits will be accrued under the Cash Balance Pension Plan and the former Firstar Corporation's plan for service after 2001, benefits previously earned under those plans have been preserved and will be part of a retiree's total retirement benefit. In order to preserve the relative value of benefits that use the final average pay formula, subsequent changes in compensation (but not in service) may increase the amount of those benefits.

The following table indicates estimated annual benefits payable under the U.S. Bancorp Pension Plan upon a participant's retirement, based on specified compensation and years of service, and assuming that all of a participant's service to U.S. Bancorp is under the U.S. Bancorp Pension Plan and includes no service under the former plans.

Estimated Annual Retirement Benefits U.S. Bancorp Pension Plan

Five-Year Average Annual Compensation	Years of Service 10	15	20	25	30	35
125,000	15,550	23,325	31,100	38,875	46,650	54,425
150,000	19,050	28,575	38,100	47,625	57,150	66,675
175,000	22,550	33,825	45,100	56,375	67,650	78,925
200,000	26,050	39,075	52,100	65,125	78,150	91,175
225,000	29,550	44,325	59,100	73,875	88,650	103,425
250,000	33,050	49,575	66,100	82,625	99,150	115,675
300,000	40,050	60,075	80,100	100,125	120,150	140,175
400,000	54,050	81,075	108,100	135,125	162,150	189,175
600,000	82,050	123,075	164,100	205,125	246,150	287,175
800,000	110,050	165,075	220,100	275,125	330,150	385,175
1,000,000	138,050	207,075	276,100	345,125	414,150	483,175
1,400,000	194,050	291,075	388,100	485,125	582,150	679,175
1,800,000	250,050	375,075	500,100	625,125	750,150	875,175
2,200,000	306,050	459,075	612,100	765,125	918,150	1,071,175
2,500,000	348,050	522,075	696,100	870,125	1,044,150	1,218,175
2,800,000	390,050	585,075	780,100	975,125	1,170,150	1,365,175
3,000,000	418,050	627,075	836,100	1,045,125	1,254,150	1,463,175

The benefits indicated on this table were estimated using the five-year average compensation amount shown above. For purposes of this table, annual compensation includes a participant's total cash compensation and the benefits are computed as a single life annuity. The estimated benefits in the shaded area do not reflect the $200,000 federal compensation limit for noncontributory defined benefit plans or the $160,000 federal limit on annual benefits. As discussed below, benefits related to compensation above these limits will be earned under our non-qualified retirement plan. The actual benefits payable under the U.S. Bancorp Pension Plan will take these limits into account and will be adjusted accordingly. One part of the formula for calculating benefits under the U.S. Bancorp Pension Plan is integrated with Social Security benefits.

Mr. Duff earned benefits under the Cash Balance Pension Plan that will be included in his ultimate retirement benefits, and Messrs. Jerry A. Grundhofer, Davis and Moffett earned benefits under the former Firstar Corporation's plan that will be included in their ultimate retirement benefits. The combined benefits payable under these prior plans and the new U.S. Bancorp Pension Plan can be reasonably estimated for these individuals by combining their credited service under the prior plans with their credited service under the U.S. Bancorp Pension Plan (which commences as of January 1, 2002) and applying the table as if all benefits were earned under the U.S. Bancorp Pension Plan. For purposes of computing total, combined retirement benefits, as of December 31, 2001, Mr. Jerry A. Grundhofer had nine years of credited service; Mr. Davis, eight years; Mr. Moffett, eight years; and Mr. Duff, four years.

Non-Qualified Retirement Plan

Federal laws limit the amount of compensation we may consider when determining benefits payable under qualified defined benefit pension plans. Therefore, we also maintain a non-contributory, non-qualified retirement plan that pays the additional pension benefits that would have been payable under our current and prior qualified defined benefit pension plans if the federal limits were not in effect. Amounts payable under our non-qualified retirement plan due to legislated limits on benefits and compensation are included in the table above.

Some of our executive officers, including Messrs. Jerry A. Grundhofer, Davis and Moffett, are eligible for an additional benefit that augments benefits under the U.S. Bancorp Pension Plan, the non-qualified retirement plan and certain other prior employer plans. The additional benefit ensures that eligible executives receive upon retirement a guaranteed total retirement benefit based on a percentage of the executive's final average compensation. For purposes of this additional benefit, final average compensation includes annual base salary, annual bonuses, and other compensation awards as determined by the Compensation Committee. Eligibility for these additional benefits is determined by the Compensation Committee of our Board of Directors based on individual performance and level of responsibility. Each of Messrs. Jerry A. Grundhofer, Davis and Moffett is guaranteed an amount of total retirement benefits at age 65 equal to 60% of his final average compensation.

The Compensation Committee has determined that the $5.6 million value of the restricted stock units granted to Mr. Jerry A. Grundhofer under his employment agreement will be included as eligible earnings in the calculation of his final average compensation at the time the restricted stock units vest, and that the amount of his annual bonus that will be included in his final average compensation will be the greater of (a) the average during the five-year period of 175% of his annual base salary, or (b) the average annual bonus actually earned by him during the applicable five-year period. If Mr. Jerry A. Grundhofer's employment with U.S. Bancorp terminates prior to December 31, 2006, for any reason other than death, disability, a termination by U.S. Bancorp without Cause (as defined in the agreement), or a termination by him for Good Reason (as defined in the agreement), then the amount in (a) above shall instead be the average during the applicable five-year period of 175% of his annual base salary per year for the calendar years commencing 2002 through the date of his termination, and 100% of his annual base salary per year for years prior to 2002. His employment agreement provides for the granting of past employer service credit for vesting purposes, but not for determining benefits, under our non-qualified retirement plan. Based on these past employer service credits, Mr. Jerry A. Grundhofer's interests in the non-qualified retirement plan are fully vested.

The additional benefits paid to executive officers are reduced by the amount of the benefits payable under our qualified defined benefit pension plans and the replacement benefits payable under our non-qualified retirement plan. The amount of additional benefits payable to executive officers eligible for the additional benefit can be estimated using the following table.

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Estimated Annual Retirement Benefits Additional Benefits

Five-Year Average Annual Compensation	Years of Service 10	15	20	25	30	35
125,000	61,005	54,008	47,010	40,013	33,015	26,018
150,000	72,855	64,283	55,710	47,138	38,565	29,993
175,000	84,705	74,558	64,410	54,263	44,115	33,968
200,000	96,555	84,833	73,110	61,388	49,665	37,943
225,000	108,405	95,108	81,810	68,513	55,215	41,918
250,000	120,255	105,383	90,510	75,638	60,765	45,893
300,000	143,955	125,933	107,910	89,888	71,865	53,843
400,000	191,355	167,033	142,710	118,388	94,065	69,743
600,000	286,155	249,233	212,310	175,388	138,465	101,543
800,000	380,955	331,433	281,910	232,388	182,865	133,343
1,000,000	475,755	413,633	351,510	289,388	227,265	165,143
1,400,000	665,355	578,033	490,710	403,388	316,065	228,743
1,800,000	854,955	742,433	629,910	517,388	404,865	292,343
2,200,000	1,044,555	906,833	769,110	631,388	493,665	355,943
2,500,000	1,186,755	1,030,133	873,510	716,888	560,265	403,643

	Years of Service					
2,800,000	1,328,955	1,153,433	977,910	802,388	626,865	451,343
3,000,000	1,423,755	1,235,633	1,047,510	859,388	671,265	483,143

The additional benefits will be calculated as an annuity commencing at age 65. The amounts in the table assume that the annuity is taken as a single life annuity with 120 guaranteed payments, offset by the benefits payable under our qualified defined benefit pension plans and the replacement benefits payable under our non-qualified retirement plan, which amounts are included in the U.S. Bancorp Pension Plan table above. The additional benefits also are subject to offsets for certain benefits provided by former employers.

Other Retirement Benefits

Under the terms of his employment agreement, Mr. John F. Grundhofer will be paid an annual aggregate retirement benefit, commencing upon the expiration of his employment agreement, equal to $2.92 million per year. Upon Mr. John F. Grundhofer's death, his spouse is entitled to receive 50% of this amount annually for the remainder of her life. To the extent Mr. John F. Grundhofer has earned benefits under the Cash Balance Pension Plan or non-qualified retirement plans of U.S. Bancorp, amounts payable under these plans will offset the $2.92 million annual benefit amount.

STOCK PERFORMANCE CHART

The following chart compares the yearly percentage changes in the cumulative total shareholder return on our common stock during the five years ended December 31, 2001 with the cumulative total return on the Standard & Poor's Major Regional Banks' Index and the Standard & Poor's Stock Index. The comparison assumes $100 was invested on January 1, 1996 in U.S. Bancorp common stock and in each of the foregoing indices and assumes the reinvestment of all dividends.

Total Return

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Compensation Committee Interlocks and Insider Participation

During fiscal year 2001, the following individuals served as members of our Compensation Committee: Arthur D. Collins, Jr., Peter H. Coors, J.P. Hayden, Jr., Roger L. Howe, Jerry W. Levin, Frank Lyon, Jr., David B. O'Maley, Thomas E. Petry, Richard G. Reiten, S. Walter Richey and John J. Stollenwerk. During fiscal year 2001, our banking and broker dealer subsidiaries engaged in the ordinary course of business in various transactions with our directors and the entities with which they are associated. All loans, loan commitments and sales of notes in connection with these transactions were made in the ordinary course of business, on substantially the same terms, including current interest rates and collateral, at those prevailing at the time for comparable transactions with others and did not involve more than the normal risk of collectibility or present other unfavorable features.

Stock Repurchases

During fiscal year 2001 as part of our authorized stock repurchase program, we purchased 80,000 shares of our common stock for an aggregate purchase price of $1,900,000 on August 1, 2001, from a family trust of which Mr. John F. Grundhofer is a beneficiary. These shares were purchased at fair market value based on the current market price of our common stock on the New York Stock Exchange on the date of the transaction.

Loans to Directors and Executive Officers

During fiscal year 2001, U.S. Bancorp engaged in loan transactions with some of our directors and executive officers solely to allow the directors and executive officers to invest in the U.S. Bancorp Piper Jaffray ECM Fund I and the U.S. Bancorp Piper Jaffray ECM Fund II. For Fund I, terms of the loans require annual interest payments, commencing on December 31, 2001, on the principal balance outstanding from time to time at the rate of 7.0% per year, with maturity at December 31, 2007. For Fund II, terms of the loans require annual interest payments, commencing December 31, 2002, on the principal balance outstanding from time to time at an annual rate of 2.25 basis points over one-month LIBOR, with maturity at December 31, 2008. The following table lists the outstanding balances of ECM Fund loans to our directors and executive officers:

	Largest aggregate amount of loan outstanding at any time during 2001	Amount outstanding as of January 31, 2002
ECM Fund I		
Andrew Duff	$ 201,322.91	$ 181,544.91
ECM Fund II		
Arthur D. Collins, Jr.	$ 96,991.00	$ 96,991.00
Jerry A. Grundhofer	27,941.00	43,645.00
Roger L. Howe	145,486.50	145,486.50
Joel W. Johnson	145,486.50	145,486.50
David B. O'Maley	29,097.30	29,097.30

Other Transactions

U.S. Bancorp purchases life insurance coverage for the benefit of certain executive officers and employees from Ohio National Life Insurance Company, of which David O'Maley is Chairman, President and Chief Executive Officer. During fiscal year 2001, U.S. Bancorp paid $12,181,988 to Ohio National Life Insurance Company to maintain this coverage. United Medical Resources, Inc., of which Victoria Buyniski Gluckman is President and Chief Executive Officer, serves as a third-party administrator for U.S. Bancorp's dental benefits plan. During fiscal year 2001, U.S. Bancorp paid $145,475 to United Medical in connection with its services. United Medical previously served as a third-party administrator for one of U.S. Bancorp's former medical plans. We paid $44,231 to United Medical during fiscal year 2001 to administer prior claims under the plan. U.S. Bancorp leases office space from F.L. Building, Inc., in which Frank Lyon, Jr. owns an indirect interest. During fiscal year 2001, U.S. Bancorp paid $206,449 in lease payments to F.L. Building, Inc.

AUDIT COMMITTEE REPORT AND PAYMENT OF FEES TO AUDITORS

Audit Committee Report

The Audit Committee of the Board of Directors is responsible for assisting the Board in monitoring the integrity of the financial statements of U.S. Bancorp, compliance by U.S. Bancorp with legal and regulatory requirements, and the independence and performance of U.S. Bancorp's internal and external auditors.

The consolidated financial statements of U.S. Bancorp for the year ended December 31, 2001 were audited by PricewaterhouseCoopers LLP, independent auditors for U.S. Bancorp.

As part of its activities, the Committee has:

1. Reviewed and discussed with management the audited financial statements of U.S. Bancorp;
2. Discussed with the independent auditors the matters required to be communicated under *Statement on Auditing Standards No. 61*;
3. Received the written disclosures and letter from the independent auditors required by *Independence Standards Board Standard No. 1*; and
4. Discussed with the independent auditors their independence.

Based on the review and discussions referred to above, the Committee recommended to the Board of Directors that the audited consolidated financial statements of U.S. Bancorp for the year ended December 31, 2001 be included in U.S. Bancorp's filing with the Securities and Exchange Commission on Form 10-K.

Audit Committee of the Board of Directors of U.S. Bancorp

Warren R. Staley, *Chair*	Roger L. Howe	Thomas E. Petry
Linda L. Ahlers	Delbert W. Johnson	Richard G. Reiten
Victoria Buyniski Gluckman	Daniel F. McKeithan, Jr.	John J. Stollenwerk
Joshua Green III	O'dell M. Owens, M.D.	

Audit Fees, Audit-Related Fees, Financial Information Systems Design and Implementation Fees, and All Other Fees

Fees for the most recent annual audit of U.S. Bancorp's consolidated financial statements, included in our Annual Report on Form 10-K, were $1.8 million, and all other fees paid to U.S. Bancorp's principal independent auditors for the year ended December 31, 2001, aggregated $8.1 million, including audit- related fees of $6.2 million, tax-related fees of $0.3 million and non-audit fees of $1.6 million. For fiscal year 2001, audit-related services included audits of the annual financial statements of the financial statements of certain subsidiaries and affiliated entities, audits of the financial statements of pension and other employee benefit plans, internal audit services, reviews of internal controls not related to the audit of the consolidated financial statements, due diligence assistance on business acquisitions, and audit reports issued in connection with capital-raising activities.

The Audit Committee has considered whether the provision of financial information systems design and implementation services and other non-audit services is compatible with maintaining the outside auditors' independence.

PROPOSAL 2 RATIFICATION OF SELECTION OF AUDITORS

Upon recommendation of the Audit Committee, the Board of Directors has selected PricewaterhouseCoopers LLP as independent auditors of U.S. Bancorp and our subsidiaries for the fiscal year ending December 31, 2002. PricewaterhouseCoopers LLP served as our independent auditors for the fiscal year ended December 31, 2001. Representatives of PricewaterhouseCoopers LLP are expected to be present at the annual meeting, will be available to answer shareholder questions and will have the opportunity to make a statement if they desire to do so.

The Board of Directors recommends that you vote FOR ratification of the selection of PricewaterhouseCoopers LLP as the independent auditors of U.S. Bancorp and our subsidiaries for the fiscal year ending December 31, 2002. Proxies will be voted FOR ratifying this selection unless otherwise specified.

PROPOSAL 3 SHAREHOLDER PROPOSAL TO REQUIRE SIMPLE MAJORITY VOTING

Mr. Gerald R. Armstrong, 910 Fifteenth Street, No. 754, Denver, Colorado 80202-2984, telephone number (303) 355-1199, the owner of 7,274 shares of our common stock, has advised us that he plans to introduce the following resolution at the annual meeting. In accordance with rules of the Securities and Exchange Commission, the text of Mr. Armstrong's resolution and supporting statement is printed verbatim from his submission.

> That U.S. BANCORP shareholders request the Board of Directors to take the steps necessary in the voting on any matter by shareholders, a simple majority of the shares outstanding shall cause that matter to be binding rather than requiring the super-majority of 80% of the shares outstanding.

The reasons given by Mr. Armstrong for the resolution are as follows:

> It is interesting to note that at U.S. BANCORP, shareholders owning a majority of the shares outstanding, may not be recognized by the Board as there is a requirement that matters of significance have a vote of 80% of the shareholders outstanding to be passed.
>
> Under existing rules, if 79% of the shares outstanding vote to remove a director WITH CAUSE and 1% voted "no" or did not vote at all, only 1% of the shares would override the 79% majority.
>
> In a predecessor corporation, this provision was adopted by less than 80% of the shares outstanding and at a time when confidential voting was not allowed in meetings and all of the unmarked proxies were voted to the favor of management.
>
> The INVESTOR RESPONSIBILITY RESEARCH CENTER has reported that proposal such as this have received 54% APPROVAL from shareholders at many major corporations.
>
> The bi-partisan National Conference of State Legislatures has urged states to ban super-majority rules like the rule now in place at U.S. BANCORP.
>
> Major professionally-managed funds, including those hold substantial amount of U.S. Bancorp shares have stated that super-majority rule are not in the best interests of shareholders.
>
> A SIMPLE MAJORITY VOTE REQUIREMENT WILL FACILITATE THE ADOPTION OF THE AMENDMENT FOR THE ANNUAL ELECTION OF ALL DIRECTORS which had 54% of the vote in last year's meeting.
>
> The Wall Street Journal (June 19, 2000) reported a survey by the International consultancy of McKinsey & Co. shows that institutional investors would pay an 18% premium for good corporate governance and a spokesman for McKinsey & Co. warned that those that fail to reform will be at a competitive disadvantage in attracting capital to finance growth.
>
> To help increase our shareholder value, please vote "FOR" this proposal.

The Board of Directors unanimously recommends a vote AGAINST the foregoing proposal for the following reasons:

Our Board of Directors strongly believes that Mr. Armstrong's proposal would be harmful to U.S. Bancorp and our shareholders. Our supermajority voting provisions are designed to prevent a hostile acquiror from acquiring control of U.S. Bancorp through coercive takeover practices or an inadequate takeover bid, and we believe that these provisions are critical for preserving shareholder value and obtaining the best price for our shareholders if our Board of Directors concludes that a sale of U.S. Bancorp is in the best interests of our shareholders.

Our restated certificate of incorporation requires a supermajority vote to approve any changes in the process for electing directors, to change the terms of our directors or to approve certain business transactions between U.S. Bancorp and a 10% shareholder (unless the transaction has been approved by our Board of Directors). If the supermajority voting requirement is eliminated, our Board of Directors could be replaced by a hostile acquiror who acquires more than 50% of our common stock or through a proxy fight by a simple majority of the shares outstanding. With a supermajority voting provision, potential acquirers are encouraged to negotiate directly with our Board of Directors, which we believe is in the best position to evaluate the fairness of proposed offers, to negotiate on behalf of all shareholders and to protect shareholders from abusive tactics during a takeover process. Adoption of a proposal for a simple majority vote would eliminate these protections.

Moreover, according to Delaware law, which governs U.S. Bancorp, most proposals submitted to a vote of our shareholders, whether submitted by management or a shareholder, require a vote of the majority of the shares *present and entitled to vote at the meeting, whether in person or by proxy*. By proposing that approval by a simple majority of the shares *outstanding* should be required for shareholder action on any matter, the proponent actually would make it more difficult for shareholders to approve most routine matters presented to them for action.

Finally, Mr. Armstrong's statement is simply incorrect in its suggestion that a supermajority vote by the shareholders is required to remove a director for "cause."

The affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy at the meeting and entitled to vote is necessary for the approval of the shareholder proposal regarding the elimination of supermajority voting. Approval of the proposal would not in itself remove the provisions requiring supermajority voting. Approval of the proposal would only serve as a request that the Board of Directors take the necessary steps to eliminate the supermajority voting provisions, which would require an amendment to our restated certificate of incorporation.

The Board of Directors recommends that you vote AGAINST this simple majority voting requirement. Proxies will be voted AGAINST this requirement unless otherwise specified.

SHAREHOLDER PROPOSALS FOR THE 2003 ANNUAL MEETING

In order for a shareholder proposal to be considered for inclusion in our proxy statement for the 2003 annual meeting, the written proposal must be received at our principal executive offices in Minneapolis, Minnesota, on or before November 8, 2002. The proposal must comply with Securities and Exchange Commission regulations regarding the inclusion of shareholder proposals in company-sponsored proxy materials.

Our bylaws provide that a shareholder may nominate a director for election at the annual meeting or may present from the floor a proposal that is not included in the proxy statement if proper written notice is received by the Secretary of U.S. Bancorp at our principal executive offices in Minneapolis, Minnesota, at least 120 days in advance of the date of the proxy statement for the prior year's annual meeting. For the 2003 annual meeting, director nominations and shareholder proposals must be received on or before November 8, 2002. The nomination or proposal must contain the specific information required by our bylaws. You may request a copy of our bylaws by contacting our Secretary, U.S. Bancorp, 225 South Sixth Street, Minneapolis, Minnesota 55402, telephone (612) 973-1111. Shareholder proposals that are submitted after November 8, 2002, may not be presented in any manner at the 2003 annual meeting.

ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-K

Our 2001 Annual Report to Shareholders and Form 10-K, including financial statements for the year ended December 31, 2001, accompanies this proxy statement. If requested, we will provide you copies of any exhibits to the Form 10-K upon the payment of a fee covering our reasonable expenses in furnishing the exhibits. You can request exhibits to the Form 10-K by writing to Investor Relations, U.S. Bancorp, 225 South Sixth Street, Minneapolis, Minnesota 55402-4302.

OTHER MATTERS

We do not know of any other matters that may be presented for consideration at the annual meeting. If any other business does properly come before the annual meeting, the persons named as proxies on the enclosed proxy card will vote as they deem in the best interests of U.S. Bancorp.

Lee R. Mitau
Secretary

Dated: March 8, 2002

LOCATION OF U.S. BANCORP ANNUAL MEETING OF SHAREHOLDERS

Tuesday, April 16, 2002 at 11:00 a.m.
America's Center
701 Convention Plaza
St. Louis, Missouri

Beneficial owners of common stock held in street name by a broker or bank will need proof of ownership to be admitted to the meeting. A recent brokerage statement or letter from the broker or bank are examples of proof of ownership.

U.S. BANCORP OFFERS THREE WAYS FOR YOU TO VOTE YOUR PROXY

As a shareholder you can now help your company save both time and expense by voting this proxy over the Internet or by touch tone phone. **Please note that all votes by telephone or through the Internet must be received by 7:00 p.m. Eastern Time on April 15, 2002.**

OPTION 1: VOTE BY TELEPHONE	Call toll-free 1-800-214-9752 using a touch-tone phone 24 hours a day, 7 days a week. You will be asked to enter the information listed below. Then, if you wish to vote as recommended by the Board of Directors, simply press 1. That's all there is to it...end of call. If you do not wish to vote as the Board recommends, you need only respond to a few simple prompts. **THERE IS NO CHARGE FOR THIS CALL. (Do not return your proxy card if you vote by phone.)** **YOUR CONTROL NUMBER IS:**
OPTION 2: VOTE ON THE INTERNET	Access **www.voteyourproxy.com** Follow the simple instructions. **(Do not return your proxy card if you vote on the Internet.)** **YOUR PROXY NUMBER IS:** **YOUR ISSUE NUMBER IS:** **YOUR ACCOUNT NUMBER IS:**
OPTION 3: VOTE BY MAIL	If you do not wish to vote by touch tone-phone or Internet, simply mark, date and sign your proxy card and return it in the enclosed postage-paid envelope. If you are voting by telephone or the Internet, please do not mail your proxy card.

v DETACH BELOW AND RETURN USING THE ENVELOPE PROVIDED v

U.S. Bancorp 2002 Annual Meeting of Shareholders

The Board of Directors recommends a vote 'For' all nominees for director, 'For' Proposal 2 and 'Against' Proposal 3.

Proposal 1: Election of Class I Directors to serve until the annual meeting of shareholders in 2005 and until their successors are elected and qualified.	**01 - Linda L. Ahlers** **02 - Joel W. Johnson** **03 - David B. O'Maley**	**04 - O'dell M. Owens, M.D., M.P.H.** **05 - Craig D. Schnuck** **06 - Warren R. Staley**	/ / FOR all nominees listed to the left (except as specified below).	/ / WITHHOLD AUTHORITY to vote for all nominees listed to the left.

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.) **--->**

Proposal 2: To ratify the selection of PricewaterhouseCoopers LLP as U.S. Bancorp's / / FOR / / AGAINST / / ABSTAIN independent auditors for the fiscal year ending December 31, 2002.

Proposal 3: To approve the shareholder proposal for simple majority voting on all matters. // FOR // AGAINST // ABSTAIN

Check appropriate box below to indicate changes Date ___________________ NO. OF SHARES

Address Change? // Name Change? // // Please check this box if you plan to attend the Annual Meeting in person.

Signature(s) in Box

Please sign exactly as name(s) appear(s) on this proxy card. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

PROXY
SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR THE 2002 ANNUAL MEETING OF SHAREHOLDERS

The undersigned, having received the Notice of Annual Meeting and Proxy Statement, revoking any proxy previously given, hereby appoint(s) Jerry A. Grundhofer and Lee R. Mitau, and either of them, as proxies to vote as directed all shares the undersigned is (are) entitled to vote at the U.S. Bancorp 2002 Annual Meeting of Shareholders and authorizes(s) each to vote in his discretion upon other business as may properly come before the meeting, or any adjournment or postponement thereof. **If this signed proxy card contains no specific voting instructions, my (our) shares will be voted 'FOR' all nominees for director, "FOR" Proposal 2, "AGAINST" Proposal 3, and in the discretion of the named proxies on all other matters.**

IF YOU DO NOT VOTE BY TOUCH-TONE PHONE OR INTERNET,
PLEASE MARK, SIGN AND DATE THIS PROXY ON THE REVERSE SIDE AND RETURN IT IN THE ENCLOSED ENVELOPE.

(SEE REVERSE SIDE TO VOTE)

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