

CARDTRONICS INC  
Form 10-Q  
November 01, 2012

---

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33864

---

CARDTRONICS, INC.

(Exact name of registrant as specified in its charter)

Delaware 76-0681190  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

Edgar Filing: CARDTRONICS INC - Form 10-Q

3250 Briarpark Drive, Suite 400                      77042  
Houston, TX    (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (832) 308-4000

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  No

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  No

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

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

Common Stock, par value: \$0.0001 per share. Shares outstanding on October 30, 2012: 44,465,062



CARDTRONICS, INC.

TABLE OF CONTENTS

|  | Page |
|--|------|
| PART I. FINANCIAL INFORMATION  |      |
| Item 1. <u>Financial Statements (unaudited)</u>  | 1    |
| <u>Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011</u>                                      | 1    |
| <u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2012 and 2011</u>           | 2    |
| <u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011</u> | 3    |
| <u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>                     | 4    |
| <u>Notes to Consolidated Financial Statements</u>  | 5    |
| <u>Cautionary Statement Regarding Forward-Looking Statements</u>   | 30   |
| Item 2. <u>Management's Discussion and Analysis of</u>   | 31   |

Financial  
Condition and  
Results of  
Operations  
Quantitative  
and Qualitative  
Disclosures  
About Market

Item 3. Risk 48

Item 4. Controls and  
Procedures 50

PART II. OTHER  
INFORMATION

Legal

Item 1. Proceedings 51

Item 1A. Risk Factors 51

Unregistered  
Sales of Equity  
Securities and

Item 2. Use of Proceeds 51

Item 6. Exhibits 51

Signatures 52

When we refer to “us,” “we,” “our,” or  
“ours,” we are describing  
Cardtronics, Inc. and/or our  
subsidiaries.

PART I.  
FINANCIAL  
INFORMATION

Item 1. Financial  
Statements

CARDTRONICS,  
INC.  
CONSOLIDATED  
BALANCE  
SHEETS  
(In thousands,  
excluding share  
and per share  
amounts)

|   | September 30,<br>2012<br>(unaudited) | December<br>31, 2011 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$ 11,097                            | \$ 5,576             |
| Accounts and notes receivable, net of allowance of \$667 and \$251 as of September 30, 2012 and December 31, 2011, respectively | 47,931                               | 40,867               |
| Inventory   | 5,867                                | 3,517                |
| Restricted cash   | 3,668                                | 4,512                |
| Current portion of deferred tax asset, net  | 15,964                               | 26,902               |
| Prepaid expenses, deferred costs, and other current assets  | 14,156                               | 13,056               |
| Total current assets  | 98,683                               | 94,430               |
| Property and equipment, net   | 237,757                              | 191,331              |
| Intangible assets, net  | 110,548                              | 111,603              |
| Goodwill  | 280,764                              | 271,562              |
| Deferred tax asset, net   | 34,859                               | 23,101               |
| Prepaid expenses, deferred costs, and other assets  | 17,623                               | 20,774               |
| Total assets  | \$ 780,234                           | \$ 712,801           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Current portion of long-term debt and notes payable   | \$ 1,598                             | \$ 2,317             |
| Current portion of other long-term liabilities  | 24,943                               | 25,101               |
| Accounts payable  | 24,703                               | 33,337               |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|  |            |            |
|--|------------|------------|
| Accrued liabilities  | 73,864     | 77,948     |
| Current portion of deferred tax liability, net   | 967        | 927        |
| Total current liabilities  | 126,075    | 139,630    |
| Long-term liabilities:   |            |            |
| Long-term debt   | 379,254    | 368,632    |
| Asset retirement obligations   | 43,036     | 34,517     |
| Other long-term liabilities  | 102,615    | 56,877     |
| Total liabilities  | 650,980    | 599,656    |
| Commitments and contingencies  |            |            |
| Stockholders' equity:  |            |            |
| Common stock, \$0.0001 par value; 125,000,000 shares authorized; 50,354,755 and 49,745,989 shares issued as of September 30, 2012 and December 31, 2011, respectively; 44,438,262 and 43,999,443 shares outstanding as of September 30, 2012 and December 31, 2011, respectively | 5          | 4          |
| Additional paid-in capital   | 248,367    | 234,716    |
| Accumulated other comprehensive loss, net  | (109,436)  | (83,902)   |
| Retained earnings  | 46,660     | 14,270     |
| Treasury stock; 5,916,493 and 5,746,546 shares at cost as of September 30, 2012 and December 31, 2011, respectively  | (57,962)   | (53,500)   |
| Total parent stockholders' equity  | 127,634    | 111,588    |
| Noncontrolling interests   | 1,620      | 1,557      |
| Total stockholders' equity   | 129,254    | 113,145    |
| Total liabilities and stockholders' equity   | \$ 780,234 | \$ 712,801 |

See accompanying notes to consolidated financial statements.

CARDTRONICS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, excluding share and per share amounts)  
(Unaudited)

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2012                                | 2011       | 2012                               | 2011       |
| Revenues:  |                                     |            |                                    |            |
| ATM operating revenues   | \$ 191,469                          | \$ 157,636 | \$ 550,849                         | \$ 432,164 |
| ATM product sales and other revenues   | 7,560                               | 7,423      | 31,240                             | 18,230     |
| Total revenues   | 199,029                             | 165,059    | 582,089                            | 450,394    |
| Cost of revenues:  |                                     |            |                                    |            |
| Cost of ATM operating revenues (excludes depreciation, accretion, and amortization shown separately below. See Note 1) | 130,064                             | 103,727    | 374,312                            | 285,630    |
| Cost of ATM product sales and other revenues   | 6,665                               | 6,501      | 27,925                             | 16,062     |
| Total cost of revenues   | 136,729                             | 110,228    | 402,237                            | 301,692    |
| Gross profit   | 62,300                              | 54,831     | 179,852                            | 148,702    |
| Operating expenses:  |                                     |            |                                    |            |
| Selling, general, and administrative expenses  | 15,292                              | 13,772     | 47,956                             | 39,701     |
| Acquisition-related expenses   | 381                                 | 956        | 1,858                              | 1,299      |
| Depreciation and accretion expense   | 15,758                              | 12,197     | 44,243                             | 35,004     |
| Amortization expense   | 5,565                               | 4,946      | 16,452                             | 12,240     |
| (Gain) loss on disposal of assets  | (28)                                | 117        | 784                                | 280        |
| Total operating expenses   | 36,968                              | 31,988     | 111,293                            | 88,524     |
| Income from operations   | 25,332                              | 22,843     | 68,559                             | 60,178     |
| Other expense (income):  |                                     |            |                                    |            |
| Interest expense, net  | 5,269                               | 5,243      | 15,966                             | 14,810     |
| Amortization of deferred financing costs   | 225                                 | 351        | 669                                | 775        |
| Other (income) expense   | (1,037)                             | 318        | (1,088)                            | 258        |
| Total other expense  | 4,457                               | 5,912      | 15,547                             | 15,843     |
| Income before income taxes   | 20,875                              | 16,931     | 53,012                             | 44,335     |
| Income tax expense (benefit)   | 8,169                               | (29,869)   | 20,684                             | (17,765)   |
| Net income   | 12,706                              | 46,800     | 32,328                             | 62,100     |
| Net (loss) income attributable to noncontrolling interests   | (191)                               | (85)       | (62)                               | 20         |
| Net income attributable to controlling interests and available to common stockholders                                  | \$ 12,897                           | \$ 46,885  | \$ 32,390                          | \$ 62,080  |
| Net income per common share – basic  | \$ 0.29                             | \$ 1.06    | \$ 0.72                            | \$ 1.42    |



Edgar Filing: CARDTRONICS INC - Form 10-Q

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Net income per common share – diluted         | \$ 0.28    | \$ 1.05    | \$ 0.71    | \$ 1.40    |
| Weighted average shares outstanding – basic   | 43,669,756 | 42,570,137 | 43,333,407 | 42,001,624 |
| Weighted average shares outstanding – diluted | 44,045,021 | 43,195,554 | 43,783,534 | 42,727,446 |

See accompanying notes to consolidated financial statements.

CARDTRONICS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands)  
(Unaudited)

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|-----------|------------------------------------|-----------|
|   | 2012                                | 2011      | 2012                               | 2011      |
| Net income  | \$ 12,706                           | \$ 46,800 | \$ 32,328                          | \$ 62,100 |
| Unrealized losses on interest rate swap contracts, net of income tax benefit of \$3,045 and \$6,590 for the three months ended September 30, 2012 and 2011, respectively, and \$18,095 and \$10,899 for the nine months ended September 30, 2012 and 2011, respectively | (4,994)                             | (10,697)  | (28,239)                           | (17,421)  |
| Foreign currency translation adjustments  | 2,403                               | (1,593)   | 2,705                              | (163)     |
| Other comprehensive loss  | (2,591)                             | (12,290)  | (25,534)                           | (17,584)  |
| Total comprehensive income  | 10,115                              | 34,510    | 6,794                              | 44,516    |
| Less: comprehensive (loss) income attributable to noncontrolling interests  | (87)                                | (342)     | 64                                 | (138)     |
| Comprehensive income attributable to controlling interests  | \$ 10,202                           | \$ 34,852 | \$ 6,730                           | \$ 44,654 |

CARDTRONICS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2012                               | 2011      |
| Cash flows from operating activities:   |                                    |           |
| Net income  | \$ 32,328                          | \$ 62,100 |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                    |           |
| Depreciation, accretion, and amortization expense   | 60,695                             | 47,244    |
| Amortization of deferred financing costs  | 669                                | 775       |
| Stock-based compensation expense  | 8,691                              | 6,996     |
| Deferred income taxes   | 18,391                             | (18,599)  |
| Loss on disposal of assets  | 784                                | 280       |
| Unrealized gain on derivative instruments   | (385)                              | (813)     |
| Amortization of accumulated other comprehensive (gains) losses associated with derivative instruments no longer designated as hedging instruments | (231)                              | 234       |
| Other reserves and non-cash items   | 2,293                              | 827       |
| Changes in assets and liabilities:  |                                    |           |
| Increase in accounts and notes receivable, net  | (6,119)                            | (11,800)  |
| (Increase) decrease in prepaid, deferred costs, and other current assets  | (1,833)                            | 1,338     |
| Increase in inventory   | (3,099)                            | (814)     |
| Decrease (increase) in other assets   | 4,359                              | (18,602)  |
| Decrease in accounts payable  | (9,791)                            | (2,323)   |
| (Decrease) increase in accrued liabilities  | (6,767)                            | 5,379     |
| Decrease in other liabilities   | (5,660)                            | (2,870)   |
| Net cash provided by operating activities   | 94,325                             | 69,352    |
| Cash flows from investing activities:   |                                    |           |
| Additions to property and equipment   | (75,875)                           | (34,654)  |
| Payments for exclusive license agreements, site acquisition costs, and other intangible assets  | (4,717)                            | (2,406)   |
| Acquisitions  | (17,885)                           | (143,627) |
| Net cash used in investing activities   | (98,477)                           | (180,687) |
| Cash flows from financing activities:   |                                    |           |
| Proceeds from borrowings of long-term debt  | 207,900                            | 317,638   |
| Repayments of long-term debt and capital leases   | (198,396)                          | (209,813) |
| Repayments of borrowings under bank overdraft facility, net   | (162)                              | (1,042)   |
| Debt issuance and modification costs  | —                                  | (655)     |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| Proceeds from exercises of stock options                     | 5,128     | 10,102    |
| Repurchase of capital stock                                  | (4,462)   | (2,859)   |
| Net cash provided by financing activities                    | 10,008    | 113,371   |
| Effect of exchange rate changes on cash                      | (335)     | (19)      |
| Net increase in cash and cash equivalents                    | 5,521     | 2,017     |
| Cash and cash equivalents as of beginning of period          | 5,576     | 3,189     |
| Cash and cash equivalents as of end of period                | \$ 11,097 | \$ 5,206  |
| Supplemental disclosure of cash flow information:            |           |           |
| Cash paid for interest, including interest on capital leases | \$ 19,980 | \$ 19,235 |
| Cash paid for income taxes                                   | \$ 3,292  | \$ 1,717  |

See accompanying notes to consolidated financial statements.

CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) General and Basis of Presentation

General

Cardtronics, Inc., along with its wholly- and majority-owned subsidiaries (collectively, the "Company") provides convenient consumer financial services through its network of automated teller machines ("ATMs") and multi-function financial services kiosks. As of September 30, 2012, the Company provided services to over 61,700 devices across its portfolio, which included approximately 53,600 devices located in all 50 states of the United States ("U.S.") as well as in the U.S. territories of Puerto Rico and the U.S. Virgin Islands, approximately 4,300 devices throughout the United Kingdom ("U.K."), approximately 2,800 devices throughout Mexico, and approximately 1,000 devices throughout Canada. Included in the number of devices in the U.S. are approximately 2,200 multi-function financial services kiosks that, in addition to traditional ATM functions such as cash dispensing and bank account balance inquiries, perform other consumer financial services, including bill payments, check cashing, remote deposit capture (which is deposit taking at ATMs using electronic imaging), and money transfers. Also included in the total count of 61,700 devices are approximately 6,000 devices for which the Company provides various forms of managed services solutions, which may include services such as transaction processing, monitoring, maintenance, cash management, and customer service.

Through its network, the Company provides ATM management and equipment-related services (typically under multi-year contracts) to large, nationally-known retail merchants as well as smaller retailers and operators of facilities such as shopping malls and airports. In doing so, the Company provides its retail partners with a compelling automated financial services solution that helps attract and retain customers, and in turn, increases the likelihood that the devices placed at their facilities will be utilized.

In addition to its retail merchant relationships, the Company also partners with leading national financial institutions to brand selected ATMs and financial services kiosks within its network, including Citibank, N.A., JPMorgan Chase Bank, N.A., Sovereign Bank, N.A., SunTrust Banks, Inc., PNC Bank, N.A, Frost Bank, The Bank of Nova Scotia ("Scotiabank") in Canada, and Grupo Financiero Banorte, S.A. de C.V. in Mexico. As of September 30, 2012, approximately 17,300 of the Company's domestic devices were under contract with financial institutions to place their

logos on those machines, and to provide convenient surcharge-free access for their banking customers. The Company also owns and operates the Allpoint network, the largest surcharge-free ATM network within the U.S. (based on the number of participating ATMs). The Allpoint network, which has more than 52,400 participating ATMs globally, provides surcharge-free ATM access to customers of participating financial institutions that lack a significant ATM network. The Allpoint network includes a majority of the Company's ATMs in the U.S., Puerto Rico and Mexico, approximately half of the Company's ATMs in Canada, all of the Company's ATMs in the U.K., and over 5,000 locations in Australia through a partnership with a local ATM owner and operator in that market. Allpoint also works with financial institutions that manage stored-value debit card programs on behalf of corporate entities and governmental agencies, including general purpose, payroll and electronic benefits transfer ("EBT") cards. Under these programs, the issuing financial institutions pay Allpoint a fee per issued stored-value card or per transaction in return for allowing the users of those cards surcharge-free access to Allpoint's participating ATM network. Finally, the Company owns and operates an electronic funds transfer ("EFT") transaction processing platform that provides transaction processing services to its network of ATMs and financial services kiosks as well as other ATMs under managed services arrangements.

#### Basis of Presentation

This Quarterly Report on Form 10-Q (this "Form 10-Q") has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial information. Because this is an interim period filing presented using a condensed format, it does not include all of the disclosures required by accounting principles generally accepted in the United States ("U.S. GAAP"), although the Company believes that the disclosures are adequate to make the information not misleading. You should read this Form 10-Q along with the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K"), which includes a summary of the Company's significant accounting policies and other disclosures.

The financial statements as of September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 are unaudited. The Consolidated Balance Sheet as of December 31, 2011 was derived from the audited balance sheet filed in the Company's 2011 Form 10-K. In management's opinion, all normal recurring adjustments necessary for a fair presentation of the Company's interim and prior period results have been made. The results of operations for the three and nine months ended September 30, 2012 and 2011 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year. Additionally, the financial statements for prior periods include certain minor reclassifications. Those reclassifications did not impact the Company's total reported net income or stockholders' equity.

The unaudited interim consolidated financial statements include the accounts of Cardtronics, Inc. and its wholly and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. Because the Company owns a majority (51.0%) interest in, and realizes a majority of the earnings and/or losses of, Cardtronics Mexico, S.A. de C.V. ("Cardtronics Mexico"), this entity is reflected as a consolidated subsidiary in the accompanying consolidated financial statements, with the remaining ownership interests not held by the Company being reflected as noncontrolling interests.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and these differences could be material to the financial statements.

#### Cost of ATM Operating Revenues and Gross Profit Presentation

The Company presents Cost of ATM operating revenues and Gross profit within its Consolidated Statements of Operations exclusive of depreciation, accretion, and amortization expense related to ATMs and ATM-related assets. The following table sets forth the amounts excluded from Cost of ATM operating revenues and Gross profit for the periods indicated:

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2012                                | 2011      | 2012                               | 2011      |
|  | (In thousands)                      |           |                                    |           |
| Depreciation and accretion expenses related to ATMs and ATM-related assets   | \$ 13,517                           | \$ 10,544 | \$ 38,232                          | \$ 30,185 |
| Amortization expense   | 5,565                               | 4,946     | 16,452                             | 12,240    |
| Total depreciation, accretion, and amortization expenses excluded from Cost of ATM operating revenues and Gross profit | \$ 19,082                           | \$ 15,490 | \$ 54,684                          | \$ 42,425 |

#### (2) Acquisitions

##### Acquisition of EDC

On July 25, 2011, the Company completed the acquisition of EDC ATM Subsidiary, LLC and Efmark Deployment I, Inc. (collectively referred to as "EDC") for approximately \$145.0 million in cash. As a result of the acquisition, the Company added over 3,600 ATMs across 47 states, with the majority of the machines located in high-traffic convenience store locations. In addition, many of the EDC ATMs were under contract with financial institutions to carry their brand and logo on the ATM, which has further enhanced the Company's surcharge-free product offerings.

Pro Forma Results of Operations. The following table presents the unaudited pro forma combined results of operations of the Company and the acquired EDC portfolios for the three and nine months ended September 30, 2011, after giving effect to certain pro forma adjustments including: (1) elimination of intercompany transactions prior to the consummation of EDC into the Company, (2) amortization of acquired intangible assets and unfavorable contract liabilities assumed, (3) the impact of certain fair value adjustments such as depreciation on the acquired property and equipment, and (4) an interest expense adjustment to remove the historical long-term debt of EDC which was repaid and to add interest expense on additional borrowings by the Company to fund the acquisition.

|   | Three Months Ended<br>September 30, 2011 |            | Nine Months Ended<br>September 30, 2011 |            |
|---|--|------------|---|------------|
|   | As                                       |            | As                                      |            |
|   | Reported                                 | Pro Forma  | Reported                                | Pro Forma  |
| Total revenues  | \$ 165,059                               | \$ 169,183 | \$ 450,394                              | \$ 484,353 |
| Net income attributable to controlling interests and available to common stockholders | 46,885                                   | 45,905     | 62,080                                  | 60,803     |
| Pro forma earnings per share – basic  | \$ 1.06                                  | \$ 1.04    | \$ 1.42                                 | \$ 1.39    |
| Pro forma earnings per share – diluted  | \$ 1.05                                  | \$ 1.03    | \$ 1.40                                 | \$ 1.37    |

The unaudited pro forma financial results do not reflect the impact of the other acquisitions consummated by the Company in 2011, as the impact from these acquisitions would not be material to the condensed consolidated results of operations. The unaudited pro forma financial results include the estimated contribution from the EDC acquisition during the entirety of each of the pro forma periods presented, and are not necessarily indicative of the actual results that would have occurred had the acquisition been completed prior to the commencement of each of the pro forma periods presented. Furthermore, it does not reflect the impacts of any potential operating efficiencies, savings from expected



synergies, or costs to integrate the operations. The unaudited pro forma financial results are not necessarily indicative of the future results to be expected for the consolidated operations.

### Other Acquisitions

During the year ended December 31, 2011, the Company completed three other business combinations that were not material individually or in the aggregate, including LocatorSearch, LLC ("LocatorSearch") on August 1, 2011, Mr. Cash ATM Network, Inc. ("Mr. Cash") on October 28, 2011, and Access to Money, Inc. ("Access to Money") on November 1, 2011.

During the nine months ended September 30, 2012, the Company completed two business combinations that were not material individually or in the aggregate, including the acquisition on January 25, 2012 of certain assets from Complete Technical Services Limited ("CTS"), an ATM installation company in the U.K., and the acquisition on August 7, 2012 of the majority of the assets of ATM Network, Inc. ("ATM Network"), a Minnesota-based ATM operator of approximately 6,200 mostly merchant-owned ATMs.

### (3) Stock-Based Compensation

The Company calculates the fair value of stock-based awards granted to employees and directors on the date of grant and recognizes the calculated fair value, net of estimated forfeitures, as compensation expense over the requisite service periods of the related awards. The following table reflects the total stock-based compensation expense amounts included in the Company's Consolidated Statements of Operations for the periods indicated:

|   | Three Months<br>Ended<br>September 30,<br>2012 |          | Nine Months Ended<br>September 30,<br>2012 |          |
|---|--|----------|--|----------|
|   | 2011   | 2011     | 2011                                       | 2011     |
|   | (In thousands)                                 |          |  |          |
| Cost of ATM operating revenues                | \$ 231   | \$ 251   | \$ 754                                     | \$ 769   |
| Selling, general, and administrative expenses | 2,452  | 2,122    | 7,937                                      | 6,227    |
| Total stock-based compensation expense        | \$ 2,683                                       | \$ 2,373 | \$ 8,691                                   | \$ 6,996 |

The increase in stock-based compensation expense during the three and nine months ended September 30, 2012 was due to the issuance of additional shares of restricted stock awards ("RSAs") and restricted stock units ("RSUs") to certain of the Company's employees and directors during the last twelve months. All grants during the periods above were granted under the Company's Amended and Restated 2007 Stock Incentive Plan (the "2007 Stock Incentive

Plan").

Options. The number of the Company's outstanding stock options as of September 30, 2012, and changes during the nine months ended September 30, 2012, are presented below:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|---|---------------------|--|
| Options outstanding as of January 1, 2012               | 1,281,950           | \$ 9.73                                  |
| Exercised   | (526,531)           | \$ 9.42                                  |
| Options outstanding as of September 30, 2012            | 755,419             | \$ 9.95                                  |
| Options vested and exercisable as of September 30, 2012 | 713,919             | \$ 10.08                                 |

As of September 30, 2012, the unrecognized compensation expense associated with outstanding options was approximately \$0.1 million.

Restricted Stock Awards. The number of the Company's outstanding RSAs as of September 30, 2012, and changes during the nine months ended September 30, 2012, are presented below:

|   | Number of<br>Shares |
|---|---------------------|
| RSAs outstanding as of January 1, 2012    | 1,106,612           |
| Granted                                   | 79,735              |
| Vested                                    | (509,015)           |
| Forfeited                                 | (5,850)             |
| RSAs outstanding as of September 30, 2012 | 671,482             |

The restricted shares granted during the nine months ended September 30, 2012 had a total grant-date fair value of approximately \$2.3 million, or weighted average share price of \$28.23 per share. As of September 30, 2012, the unrecognized compensation expense associated with all outstanding restricted share grants was approximately \$8.0 million.

**Restricted Stock Units.** In the first quarters of 2012 and 2011, the Company granted RSUs under the Company's 2012 and 2011 Long Term Incentive Plans ("LTIPs"), respectively, which are equity programs under the 2007 Stock Incentive Plan. The ultimate number of RSUs to be earned and outstanding are approved by the Compensation Committee of the Company's Board of Directors (the "Committee"), and are based on the Company's achievement of certain performance levels during the calendar year of its grant. Since these grants have both a performance-based and a service-based vesting schedule, the Company recognizes the related compensation expense over the requisite service period using a graded vesting methodology, based on the estimated performance levels that management believes will ultimately be met.

During the first quarter of 2012, the performance-based vesting requirements for the 2011 LTIP were determined to have been met by the Committee. As of September 30, 2012, 522,000 RSUs were granted and outstanding. The unrecognized compensation expense associated with RSU grants was approximately \$3.4 million as of September 30, 2012.

#### (4) Earnings per Share

The Company reports its earnings per share under the two-class method. Under this method, potentially dilutive securities are excluded from the calculation of diluted earnings per share (as well as their related impact on the statements of operations) when their impact on net income available to common stockholders is anti-dilutive. Potentially dilutive securities for the three and nine months ended September 30, 2012 and 2011 included all outstanding stock options and shares of restricted stock, which were included in the calculation of diluted earnings per share for these periods.

Additionally, the shares of restricted stock issued by the Company have a non-forfeitable right to cash dividends, if and when declared by the Company. Accordingly, restricted shares are considered to be participating securities and, as such, the Company has allocated the undistributed earnings for the three and nine months ended September 30, 2012 and 2011 among the Company's outstanding shares of common stock and issued but unvested restricted shares, as follows:

Earnings per Share (in thousands, excluding share and per share amounts):

Edgar Filing: CARDTRONICS INC - Form 10-Q

|   | Three Months Ended September 30, 2012 |                                     |                    | Nine Months Ended September 30, 2012 |                                     |                    |
|---|---------------------------------------|-------------------------------------|--------------------|--------------------------------------|-------------------------------------|--------------------|
|   | Income                                | Weighted Average Shares Outstanding | Earnings Per Share | Income                               | Weighted Average Shares Outstanding | Earnings Per Share |
| <b>Basic:</b>   |                                       |                                     |                    |                                      |                                     |                    |
| Net income attributable to controlling interests and available to common stockholders | \$ 12,897                             |                                     |                    | \$ 32,390                            |                                     |                    |
| Less: Undistributed earnings allocated to unvested restricted shares                  | (437)                                 |                                     |                    | (1,137)                              |                                     |                    |
| Net income available to common stockholders   | \$ 12,460                             | 43,669,756                          | \$ 0.29            | \$ 31,253                            | 43,333,407                          | \$ 0.72            |
| <b>Diluted:</b>   |                                       |                                     |                    |                                      |                                     |                    |
| Effect of dilutive securities:  |                                       |                                     |                    |                                      |                                     |                    |
| Add: Undistributed earnings allocated to restricted shares                            | \$ 437                                |                                     |                    | \$ 1,137                             |                                     |                    |
| Stock options added to the denominator under the treasury stock method                |                                       | 375,265                             |                    |                                      | 450,127                             |                    |
| Less: Undistributed earnings reallocated to restricted shares                         | (434)                                 |                                     |                    | (1,126)                              |                                     |                    |
| Net income available to common stockholders and assumed conversions                   | \$ 12,463                             | 44,045,021                          | \$ 0.28            | \$ 31,264                            | 43,783,534                          | \$ 0.71            |

|   | Three Months Ended September 30,<br>2011 |  |                          | Nine Months Ended September 30,<br>2011 |  |                          |
|---|--|--|--------------------------|---|--|--------------------------|
|   |  | Weighted<br>Average<br>Shares<br>Outstanding | Earnings<br>Per<br>Share |   | Weighted<br>Average<br>Shares<br>Outstanding | Earnings<br>Per<br>Share |
|   | Income                                   |  |                          | Income                                  |  |                          |
| <b>Basic:</b>   |  |  |                          |   |  |                          |
| Net income attributable to controlling interests and available to common stockholders | \$ 46,885                                |  |                          | \$ 62,080                               |  |                          |
| Less: Undistributed earnings allocated to unvested restricted shares                  | (1,667)                                  |  |                          | (2,331)                                 |  |                          |
| Net income available to common stockholders   | \$ 45,218                                | 42,570,137                                   | \$ 1.06                  | \$ 59,749                               | 42,001,624                                   | \$ 1.42                  |
| <b>Diluted:</b>   |  |  |                          |   |  |                          |
| Effect of dilutive securities:  |  |  |                          |   |  |                          |
| Add: Undistributed earnings allocated to restricted shares                            | \$ 1,667                                 |  |                          | \$ 2,331                                |  |                          |
| Stock options added to the denominator under the treasury stock method                |  | 625,417                                      |                          |   | 725,822                                      |                          |
| Less: Undistributed earnings reallocated to restricted shares                         | (1,643)                                  |  |                          | (2,293)                                 |  |                          |
| Net income available to common stockholders and assumed conversions                   | \$ 45,242                                | 43,195,554                                   | \$ 1.05                  | \$ 59,787                               | 42,727,446                                   | \$ 1.40                  |

The computation of diluted earnings per share excluded potentially dilutive common shares related to restricted stock (including both RSAs and RSUs) of 592,130 and 646,503 shares for the three and nine months ended September 30, 2012, respectively, and 432,236 and 497,981 shares for the three and nine months ended September 30, 2011, respectively, because the effect of including these shares in the computation would have been anti-dilutive.

(5) Accumulated Other Comprehensive Loss, Net

Accumulated other comprehensive loss, net is displayed as a separate component of Stockholders' equity in the accompanying Consolidated Balance Sheets and consisted of the following:

|   | September<br>30, 2012 | December<br>31, 2011 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| Foreign currency translation adjustments  | \$ (24,430)           | \$ (27,135)          |
| Unrealized losses on interest rate swap contracts, net of deferred income tax benefit of \$31,773 and \$11,219 as of September 30, 2012 and December 31, 2011, respectively | (85,006)              | (56,767)             |
| Total accumulated other comprehensive loss, net   | \$ (109,436)          | \$ (83,902)          |

The Company records unrealized losses related to its interest rate swaps net of estimated taxes in the Accumulated other comprehensive loss, net line item within Stockholders' equity in the accompanying Consolidated Balance Sheets since it is more likely than not that the Company will be able to realize the benefits associated with its net deferred tax asset positions in the future.

The Company currently believes that the unremitted earnings of its foreign subsidiaries will be reinvested for an indefinite period of time. Accordingly, no deferred taxes have been provided for the differences between the Company's book basis and underlying tax basis in these subsidiaries or on the foreign currency translation adjustment amounts.

#### (6) Noncurrent Prepaid Expenses and Other Assets

The \$17.6 million of Prepaid expenses, deferred costs, and other assets as of September 30, 2012 included \$13.4 million recorded for an insurance receivable, related to the loss sustained as a result of the misappropriation of cash in February 2010 by the president and principal owner of Mount Vernon Money Center ("MVMC"), one of the Company's former third-party armored service providers in the Northeast U.S.

In February 2010, the Company reported a loss under its own cash insurance policy related to the cash misappropriated by MVMC. In May 2011, the Company's supplier of the vault cash at issue demanded repayment from the Company for the \$16.2 million that MVMC had misappropriated. The Company subsequently repaid this amount to the vault cash provider through a borrowing under its revolving credit facility. Initially, the Company's insurance provider indicated that any otherwise unreimbursed portions of the \$16.2 million loss would ultimately be recoverable under the Company's cash insurance policy. As a result of making the repayment to the vault cash provider, the Company recorded a receivable, currently classified as noncurrent, as the Company expected to receive full reimbursement of the amount of misappropriated cash. In March 2011, the Company filed a formal insurance claim with its insurer seeking reimbursement of the \$16.2 million. In November 2011, the Company filed a lawsuit against its insurer seeking to expedite the repayment of the Company's loss. In January 2012, the insurer filed a general denial, along with certain affirmative defenses. In January 2012, the Company received \$2.8 million from the government receiver, representing a pro rata allocation of the assets seized by the government. This payment reduced this noncurrent receivable balance. While it is uncertain as to the timing of the recovery of the remainder of the assets, the Company believes that it is probable that the Company will be able to fully recover the remaining \$13.4 million currently recorded as a noncurrent receivable as of September 30, 2012 from the Company's insurance provider. Events continue to develop in the pending litigation (with its inherent uncertainties) and, as a result, the timing of recovery and the ultimate amount recovered may differ from current expectations.

(7) Intangible Assets

Intangible Assets with Indefinite Lives

The following table presents the net carrying amount of the Company's intangible assets with indefinite lives as of September 30, 2012, as well as the changes in the net carrying amounts for the nine months ended September 30, 2012, by segment:

|  | Goodwill       |           | Other         | Total      |
|--|----------------|-----------|---------------|------------|
|  | U.S.           | U.K.      | International |            |
|  | (In thousands) |           |               |            |
| Balance as of January 1, 2012:           |                |           |               |            |
| Gross balance                            | \$ 255,465     | \$ 63,364 | \$ 2,736      | \$ 321,565 |
| Accumulated impairment loss              | —              | (50,003)  | —             | (50,003)   |
|  | \$ 255,465     | \$ 13,361 | \$ 2,736      | \$ 271,562 |
| Acquisitions                             | 8,058          | 198       | —             | 8,256      |
| Purchase price adjustments               | 291            | —         | 2             | 293        |
| Foreign currency translation adjustments | —              | 589       | 64            | 653        |
| Balance as of September 30, 2012:        |                |           |               |            |
| Gross balance                            | \$ 263,814     | \$ 64,151 | \$ 2,802      | \$ 330,767 |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|                             |            |           |          |            |
|-----------------------------|------------|-----------|----------|------------|
| Accumulated impairment loss | —          | (50,003)  | —        | (50,003)   |
|                             | \$ 263,814 | \$ 14,148 | \$ 2,802 | \$ 280,764 |

|  | Trade Name     |          |          |
|--|----------------|----------|----------|
|  | U.S.           | U.K.     | Total    |
|  | (In thousands) |          |          |
| Balance as of January 1, 2012            | \$ 200         | \$ 3,098 | \$ 3,298 |
| Foreign currency translation adjustments | —              | 135      | 135      |
| Balance as of September 30, 2012         | \$ 200         | \$ 3,233 | \$ 3,433 |

Intangible Assets with Definite Lives

The following is a summary of the Company's intangible assets that were subject to amortization as of September 30, 2012:

|   | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|-----------------------|--------------------------|---------------------|
|   | (In thousands)        |                          |                     |
| Customer and branding contracts/relationships | \$ 214,826            | \$ (121,322)             | \$ 93,504           |
| Deferred financing costs                      | 9,169                 | (4,146)                  | 5,023               |
| Exclusive license agreements                  | 20,354                | (12,798)                 | 7,556               |
| Non-compete agreements                        | 1,996                 | (964)                    | 1,032               |
| Total   | \$ 246,345            | \$ (139,230)             | \$ 107,115          |



## (8) Accrued Liabilities

Accrued liabilities consisted of the following:

|   | September<br>30, 2012 | December<br>31, 2011 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| Accrued merchant fees                   | \$ 24,134             | \$ 20,387            |
| Accrued armored fees                    | 7,203                 | 5,497                |
| Accrued compensation                    | 6,963                 | 9,991                |
| Accrued cash rental and management fees | 6,398                 | 4,188                |
| Accrued merchant settlement amounts     | 5,874                 | 4,739                |
| Accrued maintenance fees                | 4,414                 | 1,233                |
| Accrued interest rate swap payments     | 2,219                 | 2,034                |
| Accrued interest expense                | 1,796                 | 5,709                |
| Accrued purchases                       | 1,704                 | 9,200                |
| Accrued ATM telecommunications costs    | 1,309                 | 1,161                |
| Accrued processing costs                | 863                   | 935                  |
| Other accrued expenses                  | 10,987                | 12,874               |
| Total                                   | \$ 73,864             | \$ 77,948            |

## (9) Long-Term Debt

The Company's long-term debt consisted of the following:

|   | September<br>30, 2012 | December<br>31, 2011 |
|---|-----------------------|----------------------|
|   | (In thousands)        |                      |
| 8.25% Senior subordinated notes due September 2018  | \$ 200,000            | \$ 200,000           |
| Revolving credit facility, including swing-line credit facility (weighted-average combined interest rate of 2.4% and 2.7% as of September 30, 2012 and December 31, 2011, respectively) | 177,500               | 166,000              |
| Equipment financing notes   | 3,352                 | 4,949                |
| Total   | 380,852               | 370,949              |
| Less: current portion   | 1,598                 | 2,317                |
| Total long-term debt, excluding current portion   | \$ 379,254            | \$ 368,632           |

## Revolving Credit Facility

As of September 30, 2012, the Company's revolving credit facility provided for \$250.0 million in borrowings and letters of credit (subject to the covenants contained within the facility), had a termination date of July 2016, and contained a feature that allows the Company to expand the facility up to \$325.0 million, subject to the availability of additional bank commitments by existing or new syndicate participants.

This revolving credit facility includes a \$15.0 million swing-line facility, a \$60.0 million foreign currency sub-limit, and a \$20.0 million letter of credit sub-limit. Borrowings under the facility bear interest at a variable rate, based upon the Company's total leverage ratio and the London Interbank Offered Rate ("LIBOR") or Alternative Base Rate (as defined in the agreement) at the Company's option. Additionally, the Company is required to pay a commitment fee on the unused portion of the revolving credit facility. Substantially all of the Company's assets, including the stock of its wholly-owned domestic subsidiaries and 66% of the stock of its foreign subsidiaries, are pledged to secure borrowings made under the revolving credit facility. Furthermore, each of the Company's domestic subsidiaries has guaranteed the Company's obligations under the revolving credit facility. There are currently no restrictions on the ability of the Company's wholly-owned subsidiaries to declare and pay dividends directly to us.

As of September 30, 2012, the Company was in compliance with all applicable covenants and ratios under the facility, which were described in the 2011 Form 10-K.

As of September 30, 2012, \$177.5 million was outstanding under the Company's revolving credit facility. Additionally, the Company has posted a \$2.0 million letter of credit serving to secure the overdraft facility of its U.K. subsidiary (further discussed below) and a \$0.1 million letter of credit serving to secure a third-party processing contract in Canada. These letters of credit, which the applicable third-parties may draw upon in the event the Company defaults on the related obligations, reduce the Company's borrowing capacity under the facility. As of September 30, 2012, the Company's available borrowing capacity under the revolving credit facility totaled approximately \$70.4 million.

\$200.0 Million 8.25% Senior Subordinated Notes Due 2018

The \$200.0 million 8.25% senior subordinated notes due September 2018 (the "2018 Notes"), which are guaranteed by all of the Company's domestic subsidiaries, contain no maintenance covenants and only limited incurrence covenants, under which the Company has considerable flexibility. Interest under the 2018 Notes is paid semi-annually in arrears on March 1st and September 1st of each year. As of September 30, 2012, the Company was in compliance with all applicable covenants required under the 2018 Notes.

Other Facilities

Cardtronics Mexico equipment financing agreements. Between 2007 and 2010, Cardtronics Mexico entered into several separate five-year equipment financing agreements with a single lender, of which six agreements have remaining balances as of September 30, 2012. These agreements, which are denominated in pesos and bear interest at an average fixed rate of 10.10%, were utilized for the purchase of ATMs to support the growth of the Company's Mexico operations. As of September 30, 2012, approximately \$42.8 million pesos (\$3.3 million U.S.) were outstanding under the agreements, with any future borrowings to be individually negotiated between the lender and Cardtronics Mexico. Pursuant to the terms of the loan agreements, the Company has issued guarantees for 51.0% of the obligations under these agreements (consistent with its ownership percentage in Cardtronics Mexico). As of September 30, 2012, the total amount of these guarantees was \$21.8 million pesos (\$1.7 million U.S.).

Bank Machine overdraft facility. Bank Machine, Ltd. ("Bank Machine") has a £1.0 million overdraft facility. This overdraft facility, which bears interest at 1.0% over the bank's base rate (0.5% as of September 30, 2012) and is secured by a letter of credit posted under the Company's revolving credit facility as discussed above in the Revolving Credit Facility section, is utilized for general corporate purposes for the Company's U.K. operations. As of September 30, 2012, there were no amounts outstanding under the overdraft facility.

(10) Asset Retirement Obligations

Asset retirement obligations consist primarily of costs to deinstall the Company's ATMs and costs to restore the ATM sites to their original condition, which are estimated based on current market rates. In most cases, the Company is contractually required to perform this deinstallation and restoration work. For each group of ATMs, the Company has recognized the fair value of the asset retirement obligation as a liability on its balance sheet and capitalized that cost as part of the cost basis of the related asset. The related assets are depreciated on a straight-line basis over five years, which is the estimated average time period that an ATM is installed in a location before being deinstalled, and the related liabilities are accreted to their full value over the same period of time.

The following table is a summary of the changes in the Company's asset retirement obligation liability for the nine months ended September 30, 2012 (in thousands):

|  |           |
|--|-----------|
| Asset retirement obligation as of January 1, 2012    | \$ 34,517 |
| Additional obligations                               | 8,689     |
| Accretion expense                                    | 1,902     |
| Payments   | (2,885)   |
| Foreign currency translation adjustments             | 813       |
| Asset retirement obligation as of September 30, 2012 | \$ 43,036 |

See Note 13, Fair Value Measurements for additional disclosures on the Company's asset retirement obligations with respect to its fair value measurements.

## (11) Other Liabilities

Other liabilities consisted of the following:

|  | September<br>30, 2012 | December<br>31, 2011 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Current Portion of Other Long-Term Liabilities:            |                       |                      |
| Interest rate swaps  | \$ 23,917             | \$ 23,637            |
| Deferred revenue   | 985                   | 1,440                |
| Other  | 41                    | 24                   |
| Total  | \$ 24,943             | \$ 25,101            |
| Other Long-Term Liabilities:                               |                       |                      |
| Interest rate swaps  | \$ 93,522             | \$ 47,423            |
| Obligations associated with acquired unfavorable contracts | 1,071                 | 3,349                |
| Deferred revenue   | 1,304                 | 1,248                |
| Other  | 6,718                 | 4,857                |
| Total  | \$ 102,615            | \$ 56,877            |

The significant increase in the noncurrent portion of other long-term liabilities since December 31, 2011 is attributable to the Company's interest rate swaps, the liabilities for which increased due to the movement of the forward interest rate curve, particularly for the swaps entered into during 2012 that extend through 2018. This resulted in an increase in the Company's estimated future liabilities under such contracts, which as of September 30, 2012, carried approximately \$117.3 million in estimated net future liabilities. See Note 12, Derivative Financial Instruments for additional information on the Company's interest rate swaps.

## (12) Derivative Financial Instruments

## Cash Flow Hedging Strategy

The Company is exposed to certain risks relating to its ongoing business operations, including interest rate risk associated with its vault cash rental obligations and, to a lesser extent, borrowings under its revolving credit facility. The Company is also exposed to foreign currency exchange rate risk with respect to its investments in its foreign subsidiaries, most notably its investment in Bank Machine in the U.K. While the Company does not currently utilize derivative instruments to hedge its foreign currency exchange rate risk, it does utilize interest rate swap contracts to manage the interest rate risk associated with its vault cash rental obligations in the U.S. and the U.K. The Company does not currently utilize any derivative instruments to manage the interest rate risk associated with its vault

cash rental obligations in Mexico or Canada, nor does it utilize derivative instruments to manage the interest rate risk associated with borrowings outstanding under its revolving credit facility.

The interest rate swap contracts entered into with respect to the Company's vault cash rental obligations mitigate the Company's exposure to interest rate risk by converting a portion of the Company's monthly floating rate vault cash rental obligations to a fixed rate. Such contracts are in place through December 31, 2018 for the Company's U.S. vault cash rental obligations, and December 31, 2013 for the Company's U.K. vault cash rental obligations. By converting such amounts to a fixed rate, the impact of future interest rate changes (both favorable and unfavorable) on the Company's monthly vault cash rental expense amounts has been reduced. The interest rate swap contracts typically involve the receipt of floating rate amounts from the Company's counterparties that match, in all material respects, the floating rate amounts required to be paid by the Company to its vault cash providers for the portions of the Company's outstanding vault cash obligations that have been hedged. In return, the Company typically pays the interest rate swap counterparties a fixed rate amount per month based on the same notional amounts outstanding. At no point is there an exchange of the underlying principal or notional amounts associated with the interest rate swaps. Additionally, none of the Company's existing interest rate swap contracts contain credit-risk-related contingent features.

For each derivative instrument that is designated and qualifies as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) ("OCI") and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedge transaction affects earnings. Gains and losses on the derivative instrument representing either hedge ineffectiveness or hedge components that are excluded from the assessment of effectiveness are recognized in earnings. However, because the Company currently only utilizes fixed-for-floating interest rate swaps in which the underlying pricing terms agree, in all material respects, with the pricing terms of the Company's vault cash rental obligations, the amount of ineffectiveness associated with such interest rate swap contracts has historically been immaterial. Accordingly, no ineffectiveness amounts associated with the Company's effective cash flow hedges have been recorded in the Company's consolidated financial statements. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the Consolidated Statements of Operations during the current period.

## Edgar Filing: CARDTRONICS INC - Form 10-Q

The notional amounts, weighted average fixed rates, and terms associated with the Company's interest rate swap contracts accounted for as cash flow hedges that are currently in place (as of the date of the issuance of these financial statements) are as follows:

23

| Notional<br>Amounts<br>U.S. | Notional<br>Amounts<br>U.K. | Notional<br>Amounts<br>Consolidated<br>(1) | Weighted<br>Average<br>Fixed<br>Rate | Term                                |
|-----------------------------|-----------------------------|--|--------------------------------------|-------------------------------------|
| (in thousands)              |                             |  |                                      |                                     |
| \$ 750,000                  | £ 50,000                    | \$ 830,820                                 | 3.45 %                               | October 1, 2012 – December 31, 2012 |
| \$ 1,000,000                | £ 25,000                    | \$ 1,040,410                               | 2.69 %                               | January 1, 2013 – December 31, 2013 |
| \$ 1,250,000                | £ —                         | \$ 1,250,000                               | 2.98 %                               | January 1, 2014 – December 31, 2014 |
| \$ 1,300,000                | £ —                         | \$ 1,300,000                               | 2.84 %                               | January 1, 2015 – December 31, 2015 |
| \$ 1,300,000                | £ —                         | \$ 1,300,000                               | 2.74 %                               | January 1, 2016 – December 31, 2016 |
| \$ 1,000,000                | £ —                         | \$ 1,000,000                               | 2.53 %                               | January 1, 2017 – December 31, 2017 |
| \$ 750,000                  | £ —                         | \$ 750,000                                 | 2.54 %                               | January 1, 2018 – December 31, 2018 |

(1) U.K. pound sterling amounts have been converted into U.S. dollars at approximately \$1.62 to £1.00, which was the exchange rate in effect as of September 30, 2012.

### Accounting Policy

The Company recognizes all of its derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. The accounting for changes in the fair value (e.g., gains or losses) of those derivative instruments depends on (1) whether these instruments have been designated (and qualify) as part of a hedging relationship and (2) the type of hedging relationship actually designated. For derivative instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge, or a hedge of a net investment in a foreign operation.

The Company has designated a majority of its interest rate swap contracts as cash flow hedges of the Company's forecasted vault cash rental obligations. Accordingly, changes in the fair values of the related interest rate swap contracts have been reported in the Accumulated other comprehensive loss, net line item within stockholders' equity in the accompanying Consolidated Balance Sheets.

The Company believes that it is more likely than not that it will be able to realize the benefits associated with its net deferred tax asset positions in the future. Therefore, the Company records the unrealized losses related to its domestic interest rate swaps net of estimated taxes in the Accumulated other comprehensive loss, net line item within Stockholders' equity in the accompanying Consolidated Balance Sheets.

The Company is also a party to certain derivative instruments that were originally, but are no longer, designated as cash flow hedges. Specifically, during 2009, the Company entered into a number of interest rate swaps to hedge its exposure to changes in market rates of interest on its vault cash rental expense in the U.K. During the fourth quarter of 2009, the Company's vault cash provider in that market exercised its rights under the contract to modify the pricing terms and changed the target vault cash rental rate within the agreement. As a result of this change, the Company was no longer able to apply cash flow hedge accounting treatment to the underlying interest rate swap agreements. In December 2009, the Company entered into a series of additional trades, the effects of which were to mostly offset the existing swaps and establish new swaps to match the modified underlying vault cash rental rate. Since the underlying swaps were not deemed to be effective hedges of the Company's underlying vault cash rental costs, the Company was required to record an unrealized gain and a corresponding realized loss of \$0.1 million and \$0.3 million for the three months ended September 30, 2012 and 2011, respectively, an unrealized gain and a corresponding realized loss of \$0.4 million for the nine months ended September 30, 2012, and an unrealized gain of \$0.8 million and a realized loss of \$0.9 million for the nine months ended September 30, 2011, related to these swaps, which have been reflected in the Other expense (income) line item in the accompanying Consolidated Statements of Operations.

#### Tabular Disclosures

The following tables depict the effects of the use of the Company's derivative contracts on its Consolidated Balance Sheets and Consolidated Statements of Operations.



## Balance Sheet Data

| Asset Derivative<br>Instruments:                      | September 30, 2012  | Fair Value | December 31, 2011   | Fair Value |
|---|---|------------|---|------------|
|   | Balance Sheet Location<br>(In thousands)                      |            | Balance Sheet Location  |            |
| Derivatives Not Designated<br>as Hedging Instruments: |   |            |   |            |
| Interest rate swap contracts                          | Prepaid expenses, deferred<br>costs, and other current assets | \$ 160     | Prepaid expenses, deferred<br>costs, and other current assets | \$ 606     |
| Liability Derivative<br>Instruments:                  |   |            |   |            |
| Derivatives Designated as<br>Hedging Instruments:     |   |            |   |            |
| Interest rate swap contracts                          | Current portion of other<br>long-term liabilities             | \$ 23,619  | Current portion of other<br>long-term liabilities             | \$ 22,520  |
| Interest rate swap contracts                          | Other long-term liabilities                                   | 93,522     | Other long-term liabilities                                   | 47,423     |
| Total   |   | \$ 117,141 |   | \$ 69,943  |
| Derivatives Not Designated<br>as Hedging Instruments: |   |            |   |            |
| Interest rate swap contracts                          | Current portion of other<br>long-term liabilities             | \$ 298     | Current portion of other<br>long-term liabilities             | \$ 1,117   |
| Total Derivatives                                     |   | \$ 117,279 |   | \$ 70,454  |

The asset derivative instruments reflected in the table above relate to the portions of certain derivative instruments that were in an overall liability position, for which the remainder of the fair value is reflected in the liability derivative instruments portion above.

## Statements of Operations Data

| Derivatives in Cash Flow<br>Hedging Relationship | Three Months Ended September 30,       |   | Amount of Loss<br>Reclassified from |
|--|--|---|-------------------------------------|
|  | Amount of Loss<br>Recognized in OCI on | Location of Loss Reclassified from<br>Accumulated OCI Into Income |                                     |
|  |  |   |                                     |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|                              | Derivative Instruments (Effective Portion) |             |                                | Accumulated OCI into Income |            |
|------------------------------|--|-------------|--------------------------------|-----------------------------|------------|
|                              | (Effective Portion)                        |             |                                | (Effective Portion)         |            |
|                              | 2012                                       | 2011        |                                | 2012                        | 2011       |
|                              | (in thousands)                             |             |                                | (in thousands)              |            |
| Interest rate swap contracts | \$ (11,490)                                | \$ (16,674) | Cost of ATM operating revenues | \$ (6,605)                  | \$ (5,974) |

Nine Months Ended September 30,

|   | Amount of Loss Recognized in OCI on Derivative Instruments |             | Location of Loss Reclassified from Accumulated OCI Into Income | Amount of Loss Reclassified from Accumulated OCI into Income |             |
|---|--|-------------|--|--|-------------|
|   | (Effective Portion)  |             |  | (Effective Portion)  |             |
|   | 2012   | 2011        |  | 2012   | 2011        |
|   | (in thousands)   |             |  | (in thousands)   |             |
| Derivatives in Cash Flow Hedging Relationship |  |             |  |  |             |
| Interest rate swap contracts                  | \$ (47,455)  | \$ (35,328) | Cost of ATM operating revenues                                 | \$ (19,447)  | \$ (17,672) |

|  |   | Three Months<br>Ended<br>September 30,<br>Amount of<br>Income (Loss)<br>Recognized<br>into Income on<br>Derivative<br>Instruments |        |
|--|---|---|--------|
|  |   | 2012  | 2011   |
| Derivatives Not Designated as Hedging<br>Instruments | Location of Income (Loss) Recognized into Income on<br>Derivative Instruments | (In thousands)  |        |
| Interest rate swap contracts                         | Cost of ATM operating revenues  | \$ 109  | \$ (3) |
| Interest rate swap contracts                         | Other income  | (4)   | 6      |
|  |   | \$ 105  | \$ 3   |

|  |   | Nine Months<br>Ended September<br>30,<br>Amount of<br>Income (Loss)<br>Recognized into<br>Income on<br>Derivative<br>Instruments |          |
|--|---|--|----------|
|  |   | 2012   | 2011     |
| Derivatives Not Designated as Hedging<br>Instruments | Location of Income (Loss) Recognized into Income on<br>Derivative Instruments | (In thousands)   |          |
| Interest rate swap contracts                         | Cost of ATM operating revenues  | \$ 231   | \$ (235) |
| Interest rate swap contracts                         | Other income  | (10)   | (44)     |
|  |   | \$ 221   | \$ (279) |

The Company does not currently have any derivative instruments that have been designated as fair value or net investment hedges. The Company has not historically, and does not currently anticipate terminating its existing derivative instruments prior to their expiration dates. If the Company concludes that it is no longer probable that the anticipated future vault cash rental obligations that have been hedged will occur, or if changes are made to the underlying terms and conditions of the Company's vault cash rental agreements, thus creating some amount of ineffectiveness associated with the Company's current interest rate swap contracts, as occurred during the fourth quarter of 2009, any resulting gains or losses will be recognized within the Other expense (income) line item of the Company's Consolidated Statements of Operations.

As of September 30, 2012, the Company expected to reclassify \$23.5 million of net derivative-related losses contained within accumulated OCI into earnings during the next twelve months concurrent with the recording of the related

vault cash rental expense amounts.

See Note 13, Fair Value Measurements for additional disclosures on the Company's interest rate swap contracts in respect to its fair value measurements.

### (13) Fair Value Measurements

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2012 using the fair value hierarchy prescribed by U.S. GAAP. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant non-observable inputs. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

|   | Fair Value Measurements at September 30, 2012 |       |            |         |
|---|---|-------|------------|---------|
|   | Total   | Level |            | Level 3 |
|   |   | 1     | Level 2    |         |
|   | (In thousands)                                |       |            |         |
| <b>Assets:</b>                                  |   |       |            |         |
| Assets associated with interest rate swaps      | \$ 160  | \$ —  | \$ 160     | \$ —    |
| <b>Liabilities</b>                              |   |       |            |         |
| Liabilities associated with interest rate swaps | \$ 117,439                                    | \$ —  | \$ 117,439 | \$ —    |
| Acquisition-related contingent consideration    | 3,802   | —     | —          | 3,802   |

|   | Fair Value Measurements at December 31, 2011 |       |           |         |
|---|--|-------|-----------|---------|
|   | Total  | Level |           |         |
|   |  | 1     | Level 2   | Level 3 |
|   | (In thousands)                               |       |           |         |
| <b>Assets:</b>                                  |  |       |           |         |
| Assets associated with interest rate swaps      | \$ 606                                       | \$ —  | \$ 606    | \$ —    |
| <b>Liabilities</b>                              |  |       |           |         |
| Liabilities associated with interest rate swaps | \$ 71,060                                    | \$ —  | \$ 71,060 | \$ —    |
| Acquisition-related contingent consideration    | 3,475  | —     | —         | 3,475   |

Additions to asset retirement obligation liability. The Company estimates the fair value of additions to its asset retirement obligation liability using expected future cash outflows discounted at the Company's credit-adjusted risk-free interest rate. Liabilities added to the Asset retirement obligations line item in the accompanying Consolidated Balance Sheets are measured at fair value at the time of the asset installations on a non-recurring basis using Level 3 inputs, and are only reevaluated periodically based on current fair value. Amounts added to the asset retirement obligation liability during the nine months ended September 30, 2012 and 2011 totaled \$8.7 million and \$6.3 million, respectively.

Below are descriptions of the Company's valuation methodologies for assets and liabilities measured at fair value. The methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Cash and cash equivalents, accounts and notes receivable, net of the allowance for doubtful accounts, other current assets, accounts payable, accrued expenses, and other current liabilities. These financial instruments are not carried at fair value, but are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk.

Interest rate swaps. The fair value of the Company's interest rate swaps was a net liability of \$117.3 million as of September 30, 2012. These financial instruments are carried at fair value, calculated as the present value of amounts estimated to be received or paid to a marketplace participant in a selling transaction. These derivatives are valued using pricing models based on significant other observable inputs (Level 2 inputs), while taking into account the creditworthiness of the party that is in the liability position with respect to each trade. See Note 12, Derivative Financial Instruments for additional disclosures on the valuation process of this liability.

Acquisition-related contingent consideration. Liabilities from acquisition-related contingent consideration are estimated by the Company using a discounted cash flow model. Acquisition-related contingent consideration

liabilities are classified as Level 3 liabilities, because the Company uses unobservable inputs to value them, based on its best estimate of operational results upon which the payment of these obligations are contingent. Amounts added to the acquisition-related contingent consideration during the nine months ended September 30, 2012 was the result of accretion expense. Unrealized gains and losses related to the contingent consideration associated with acquisitions are included in other (income) expenses in the Company's consolidated statements of operations.

Long-term debt. The carrying amount of the long-term debt balance related to borrowings under the Company's revolving credit facility approximates fair value due to the fact that any borrowings are subject to short-term floating interest rates. As of September 30, 2012, the fair value of the Company's 2018 Notes (see Note 9, Long-Term Debt) totaled \$224.3 million, based on the quoted market price (Level 1 input) for the 2018 Notes as of that date.

Fair Value Option. In February 2007, the Financial Accounting Standards Board ("FASB") issued a statement that provided companies the option to measure certain financial instruments and other items at fair value. The Company elected not to adopt the fair value option provisions of this statement.

#### (14) Commitments and Contingencies

##### Legal Matters

Automated Transactions. On August 16, 2010, a lawsuit was filed in the United States District Court for the District of Delaware (the "District Court") entitled Automated Transactions LLC ("ATL") v. IYG Holding Co., et al. 10 Civ. 0691 (D. Del.) (the "2010 Lawsuit"). The 2010 Lawsuit names the Company's wholly-owned subsidiary, Cardtronics USA, Inc. ("Cardtronics USA"), as one of the defendants. The 2010 Lawsuit alleges that Cardtronics USA and the other defendants infringed upon seven of the plaintiff's patents by providing retail transactions to consumers through their ATMs. The plaintiff, ATL, is seeking a permanent injunction, damages, treble damages and costs, including attorney's fees and expenses. The allegations raised by the plaintiff in this suit are similar to the allegations made by the same plaintiff in a suit filed in 2006 (the "2006 Lawsuit") against 7-Eleven, Inc. ("7-Eleven") concerning six of the same seven patents. In July

2007, when the Company acquired the 7-Eleven portfolio, the Company became subject to the 2006 Lawsuit; the ATM supplier in that case agreed to indemnify 7-Eleven, Inc. against the plaintiff's claims. That indemnity was assigned by 7-Eleven to the Company, and the supplier acknowledged that assignment.

The 2010 Lawsuit was stayed by order of the District Court pending the outcome of the 2006 Lawsuit. In the 2006 Lawsuit, following the Company's submission for summary judgment the District Court found that the defendants did not infringe the claims asserted in any of the plaintiff's five patents (the allegations as to the sixth patent having been dismissed earlier). In addition, the District Court granted the defendants partial summary judgment, concluding that the plaintiff's patent claims were, in part, invalid and rendered other findings so as to materially weaken the plaintiff's case. In addition, on January 28, 2011, the United States Patent and Trademark Office Board of Patent Appeals and Interferences ("BPAI") issued a decision affirming the rejection on the grounds of obviousness of all the claims of one of the patents asserted by the plaintiff in both the 2006 Lawsuit and the 2010 Lawsuit. The plaintiff appealed both of these rulings to the U.S. Court of Appeals for the Federal Circuit (the "Court of Appeals"). On April 23, 2012, the Court of Appeals rendered a decision that affirmed both the District Court's rulings and the BPAI decision (the "Appeals Decision"). ATL's request for rehearing of the Appeals Decision was denied. As a consequence, the 2006 Lawsuit has been effectively resolved in the Company's favor pending entry of a formal final judgment. Furthermore, though the Appeals Decision in the 2006 Lawsuit does not formally terminate the 2010 Lawsuit, the findings set forth in the Appeals Decision should also resolve in favor of the Company all of the claims made involving the same patents as had been asserted in the 2006 Lawsuit. The Appeals Decision should also materially weaken the plaintiff's claims in the two remaining patents in the 2010 Lawsuit, which has now been consolidated with the 2006 Lawsuit and resumed.

Notwithstanding the outcome of the 2006 Lawsuit, ATL has initiated new patent infringement lawsuits against other companies, based on "child" patents of the parent patent in the 2006 Lawsuit and the 2010 Lawsuit. The asserted claims of the parent patent were already held invalid in the Appeals Decision. Two of those new cases name as defendants the customers of the Company under ATM placement agreements pursuant to which the Company operates ATMs alleged to infringe ATL's child patents. Until resolved, these cases implicate the Company in defending its customers where these ATMs are placed and could involve ATL alleging new claims against the Company. The Company has joined as a defendant in one of those cases and asserted counterclaims against ATL for invalidity, non-infringement and requesting costs and attorneys' fees for improperly bringing such a suit. The Company believes that these ATL lawsuits have no merit, especially because the child patents asserted have patent claims or limitations previously held invalid or non-infringing in the Appeals Decision. Accordingly, the Company does not expect that the remaining lawsuits will have a material impact on its financial condition or results of operation, and the Company will continue to vigorously defend its position.

National Federation of the Blind. Through its acquisition of the E\*Trade ATM portfolio, the Company became the sole defendant in the 2003 lawsuit filed by the National Federation of the Blind, the Commonwealth of Massachusetts, et. al. and certain individuals representing a class of similarly situated persons (the "Plaintiffs") against E\*Trade Access, Inc., et al. in the United States District Court for the District of Massachusetts: Civil Action No. 03-11206-NMG (the "Lawsuit"). The Plaintiffs sought to require, among other things, that ATMs deployed by E\*Trade be voice-guided. In December 2007, the Company and Plaintiffs entered into a settlement agreement (as modified in November 2010, the "Settlement Agreement"). In 2011, the Plaintiffs filed a motion of contempt with the District Court alleging that the Company had failed to fully comply with the requirements of the Settlement Agreement. On December 15, 2011, the District Court issued an order that required the Company to bring all of its ATMs in compliance with the terms of the Settlement Agreement by March 15, 2012. In August 2012, the Plaintiffs filed their

second motion of contempt, which alleged, among other things, that the Company had failed to meet the District Court's deadline and sought a fine of \$50 per ATM for each month that the District Court determined the Company was not in compliance. The Company filed its response on September 28, 2012, in which it asserted that while the Company's ATMs are in substantial compliance with the accessibility rules issued under the American with Disabilities Act, as amended (the "ADA"), compliance with certain terms of the Settlement Agreement would conflict with the requirements of the ADA. The Company also asked the District Court to appoint a special master to assist the Company and the Plaintiffs in resolving these conflicting requirements. The Company is unable to estimate any range of possible fines that could be assessed as a result of the Plaintiff's filing of the Second Motion.

In addition to the above items, the Company is subject to various legal proceedings and claims arising in the ordinary course of its business. The Company has provided reserves where necessary for all claims and the Company's management does not expect the outcome in any of these legal proceedings, individually or collectively, to have a material adverse impact on the Company's financial condition or results of operations. Additionally, the Company currently expenses all legal costs as they are incurred.

#### Other Commitments

Asset Retirement Obligations. The Company's asset retirement obligations consist primarily of deinstallation costs of the ATM and costs to restore the ATM site to its original condition. In most cases, the Company is legally required to perform this deinstallation and restoration work. The Company had \$43.0 million accrued for these liabilities as of September 30, 2012. For additional information, see Note 10, Asset Retirement Obligations.



## (15) Income Taxes

Income tax expense based on the Company's income before income taxes was as follows:

|                              | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                              | 2012                                | 2011        | 2012                               | 2011        |
|                              | (In thousands)                      |             | (In thousands)                     |             |
| Income tax expense (benefit) | \$ 8,169                            | \$ (29,869) | \$ 20,684                          | \$ (17,765) |
| Effective tax rate           | 39.1 %                              | (176.4) %   | 39.0 %                             | (40.1) %    |

The Company's effective tax rate during the nine months ended September 30, 2012 was slightly higher than the combined total of the U.S. federal statutory rate of 35% and the Company's estimated effective state tax rate of 3.3%, primarily due to nondeductible items recorded in the Company's domestic operations. The negative tax rate in the same period in 2011 was primarily the result of tax restructuring the Company implemented with respect to its U.K. operations during the third quarter of 2011. During the quarter ended September 30, 2011, the Company implemented a tax reporting change with respect to its U.K. operations whereby the U.K. entities are no longer considered to be controlled foreign corporations (i.e. "CFCs") for U.S. income tax purposes, but are instead, effectively treated as a branch of the Company's U.S. operations for U.S. federal income tax purposes. This change in U.S. federal income tax reporting election resulted in the recognition of a tax loss on its net investment in its U.K. operations. The Company also recognized a loss on certain long-term debt obligations of its U.K. operations to the parent company. As a result of these events, the Company recorded a tax benefit of \$37.0 million in the quarter ended September 30, 2011. Also impacting the Company's effective tax rate during the three and nine months ended September 30, 2012 and 2011 are operating losses recorded in its foreign operations for which the Company did not record a tax benefit, as a result of carrying valuation allowances on its foreign deferred tax assets.

The deferred taxes associated with the Company's unrealized gains and losses on derivative instruments have been reflected within the accumulated other comprehensive loss balance in the accompanying Consolidated Balance Sheets.

## (16) Segment Information

As of September 30, 2012, the Company's operations consisted of its U.S., U.K., and Other International segments. The Company's operations in Puerto Rico and the U.S. Virgin Islands are included in its U.S. segment. The Other International segment currently is comprised of the Company's operations in Mexico and Canada. While each of these reporting segments provides similar kiosk-based and/or ATM-related services, each segment is currently managed separately as they require different marketing and business strategies.

Management uses Adjusted EBITDA, along with other U.S. GAAP-based measures, to assess the operating results and effectiveness of its segments. Management believes Adjusted EBITDA is a useful measure because it allows management to more effectively evaluate operating performance and compare its results of operations from period to period without regard to financing method or capital structure. The Company excludes depreciation, accretion, and amortization expense as these amounts can vary substantially depending upon book values of assets, capital structures and the method by which the assets were acquired. Additionally, Adjusted EBITDA does not reflect acquisition-related costs and the Company's obligations for the payment of income taxes, loss on disposal of assets, interest expense, certain other non-operating items or other obligations such as capital expenditures.

Adjusted EBITDA, as defined by the Company, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with U.S. GAAP. In evaluating the Company's performance as measured by Adjusted EBITDA, management recognizes and considers the limitations of this measurement. Accordingly, Adjusted EBITDA is only one of the measurements that management utilizes. Therefore, Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income, cash flows from operating, investing, and financing activities or other income or cash flow statement data prepared in accordance with U.S. GAAP.

Edgar Filing: CARDTRONICS INC - Form 10-Q

Below is a reconciliation of Adjusted EBITDA to net income attributable to controlling interests:

|   | Three Months Ended<br>September 30,<br>2012 |           | Nine Months Ended<br>September 30,<br>2011 |            |
|---|---|-----------|--|------------|
|   | 2012  | 2011      | 2012                                       | 2011       |
|   | (In thousands)                              |           | (In thousands)                             |            |
| Adjusted EBITDA   | \$ 49,516                                   | \$ 43,046 | \$ 139,395                                 | \$ 114,446 |
| Less:   |   |           |  |            |
| (Gain) loss on disposal of assets   | (28)  | 117       | 784  | 280        |
| Other (income) expense  | (1,040)                                     | 328       | (1,098)                                    | 221        |
| Noncontrolling interests  | (355)                                       | (471)     | (1,217)                                    | (1,466)    |
| Stock-based compensation expense  | 2,675                                       | 2,363     | 8,664                                      | 6,968      |
| Acquisition-related expenses  | 381   | 956       | 1,858                                      | 1,299      |
| EBITDA  | \$ 47,883                                   | \$ 39,753 | \$ 130,404                                 | \$ 107,144 |
| Less:   |   |           |  |            |
| Interest expense, net, including amortization of deferred financing costs             | 5,494                                       | 5,594     | 16,635                                     | 15,585     |
| Income tax expense (benefit)  | 8,169                                       | (29,869)  | 20,684                                     | (17,765)   |
| Depreciation and accretion expense  | 15,758                                      | 12,197    | 44,243                                     | 35,004     |
| Amortization expense  | 5,565                                       | 4,946     | 16,452                                     | 12,240     |
| Net income attributable to controlling interests and available to common stockholders | \$ 12,897                                   | \$ 46,885 | \$ 32,390                                  | \$ 62,080  |

The following tables reflect certain financial information for each of the Company's reporting segments for the three and nine months ended September 30, 2012 and 2011.

|   | Three Months Ended September 30, 2012 |           |                        |              |            |
|---|---------------------------------------|-----------|------------------------|--------------|------------|
|   | U.S.                                  | U.K.      | Other<br>International | Eliminations | Total      |
|   | (In thousands)                        |           |                        |              |            |
| Revenue from external customers               | \$ 157,649                            | \$ 30,887 | \$ 10,493              | \$ —         | \$ 199,029 |
| Intersegment revenues                         | 4,110                                 | —         | 16                     | (4,126)      | —          |
| Cost of revenues                              | 108,039                               | 24,097    | 8,372                  | (3,779)      | 136,729    |
| Selling, general, and administrative expenses | 12,630                                | 1,584     | 894                    | 184          | 15,292     |
| Acquisition-related expenses                  | 373                                   | 8         | —                      | —            | 381        |
| Loss (gain) on disposal of assets             | 82                                    | (73)      | (37)                   | —            | (28)       |
| Adjusted EBITDA                               | 43,756                                | 5,200     | 1,091                  | (531)        | 49,516     |
| Depreciation and accretion expense            | 9,793                                 | 4,916     | 1,055                  | (6)          | 15,758     |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|  |           |          |          |          |           |
|--|-----------|----------|----------|----------|-----------|
| Amortization expense   | 5,300     | 229      | 36       | —        | 5,565     |
| Interest expense, net, including amortization of<br>deferred financing costs | 5,224     | 169      | 101      | —        | 5,494     |
| Income tax expense   | 8,169     | —        | —        | —        | 8,169     |
| Capital expenditures <sup>(1)</sup>  | \$ 16,738 | \$ 6,363 | \$ 2,495 | \$ (220) | \$ 25,376 |

20

---

Edgar Filing: CARDTRONICS INC - Form 10-Q

Three Months Ended September 30, 2011

|   | U.S.           | U.K.      | Other<br>International | Eliminations | Total      |
|---|----------------|-----------|------------------------|--------------|------------|
|   | (In thousands) |           |                        |              |            |
| Revenue from external customers   | \$ 132,891     | \$ 26,060 | \$ 6,108               | \$ —         | \$ 165,059 |
| Intersegment revenues   | 1,156          | —         | 30                     | (1,186)      | —          |
| Cost of revenues  | 87,020         | 19,666    | 4,728                  | (1,186)      | 110,228    |
| Selling, general, and administrative expenses                             | 11,642         | 1,508     | 622                    | —            | 13,772     |
| Acquisition-related expenses  | 956            | —         | —                      | —            | 956        |
| Loss (gain) on disposal of assets   | 44             | 89        | (16)                   | —            | 117        |
| Adjusted EBITDA   | 37,743         | 4,892     | 411                    | —            | 43,046     |
| Depreciation and accretion expense  | 7,244          | 4,183     | 776                    | (6)          | 12,197     |
| Amortization expense  | 4,447          | 494       | 5                      | —            | 4,946      |
| Interest expense, net, including amortization of deferred financing costs | 4,545          | 885       | 164                    | —            | 5,594      |
| Income tax benefit  | (29,869)       | —         | —                      | —            | (29,869)   |
| Capital expenditures <sup>(1)</sup>                                       | \$ 6,538       | \$ 5,006  | \$ 119                 | \$ —         | \$ 11,663  |

Nine Months Ended September 30, 2012

|   | U.S.           | U.K.      | Other<br>International | Eliminations | Total      |
|---|----------------|-----------|------------------------|--------------|------------|
|   | (In thousands) |           |                        |              |            |
| Revenue from external customers   | \$ 471,623     | \$ 84,419 | \$ 26,047              | \$ —         | \$ 582,089 |
| Intersegment revenues   | 6,778          | —         | 74                     | (6,852)      | —          |
| Cost of revenues  | 321,418        | 66,828    | 20,483                 | (6,492)      | 402,237    |
| Selling, general, and administrative expenses                             | 40,509         | 5,026     | 2,237                  | 184          | 47,956     |
| Acquisition-related expenses  | 1,738          | 120       | —                      | —            | 1,858      |
| Loss (gain) on disposal of assets   | 822            | (32)      | (6)                    | —            | 784        |
| Adjusted EBITDA   | 125,110        | 12,553    | 2,276                  | (544)        | 139,395    |
| Depreciation and accretion expense  | 27,482         | 14,140    | 2,637                  | (16)         | 44,243     |
| Amortization expense  | 15,081         | 1,263     | 108                    | —            | 16,452     |
| Interest expense, net, including amortization of deferred financing costs | 15,848         | 472       | 315                    | —            | 16,635     |
| Income tax expense  | 20,684         | —         | —                      | —            | 20,684     |
| Capital expenditures <sup>(1)</sup>                                       | \$ 52,372      | \$ 18,152 | \$ 10,300              | \$ (232)     | \$ 80,592  |



Edgar Filing: CARDTRONICS INC - Form 10-Q

Nine Months Ended September 30, 2011

|  | U.S.           | U.K.      | Other<br>International | Eliminations | Total      |
|--|----------------|-----------|------------------------|--------------|------------|
|  | (In thousands) |           |                        |              |            |
| Revenue from external customers  | \$ 358,977     | \$ 72,129 | \$ 19,288              | \$ —         | \$ 450,394 |
| Intersegment revenues  | 3,042          | —         | 87                     | (3,129)      | —          |
| Cost of revenues   | 235,163        | 54,957    | 14,701                 | (3,129)      | 301,692    |
| Selling, general, and administrative expenses                                | 33,683         | 4,377     | 1,641                  | —            | 39,701     |
| Acquisition-related expenses   | 1,299          | —         | —                      | —            | 1,299      |
| Loss (gain) on disposal of assets  | 126            | 191       | (37)                   | —            | 280        |
| Adjusted EBITDA  | 100,119        | 12,751    | 1,576                  | —            | 114,446    |
| Depreciation and accretion expense   | 20,808         | 11,860    | 2,352                  | (16)         | 35,004     |
| Amortization expense   | 10,735         | 1,489     | 16                     | —            | 12,240     |
| Interest expense, net, including amortization of<br>deferred financing costs | 11,872         | 3,137     | 576                    | —            | 15,585     |
| Income tax benefit   | (17,765)       | —         | —                      | —            | (17,765)   |
| Capital expenditures <sup>(1)</sup>  | \$ 21,730      | \$ 15,124 | \$ 206                 | \$ —         | \$ 37,060  |

<sup>(1)</sup> Capital expenditure amounts include payments made for exclusive license agreements and site acquisition costs, and capital expenditures financed by direct debt. Additionally, capital expenditure amounts for Mexico (included in the Other International segment) are reflected gross of any noncontrolling interest amounts.

Identifiable Assets:

|                     | September<br>30, 2012 | December<br>31, 2011 |
|---------------------|-----------------------|----------------------|
|                     | (In thousands)        |                      |
| United States       | \$ 727,589            | \$ 665,553           |
| United Kingdom      | 111,018               | 93,182               |
| Other International | 28,189                | 16,626               |
| Eliminations        | (86,562)              | (62,560)             |
| Total               | \$ 780,234            | \$ 712,801           |

(17) New Accounting Pronouncements

Issued but Not Yet Adopted

Testing Indefinite-Lived Intangible Assets for Impairment. In July 2012, the FASB issued Accounting Standards Updates ("ASU") 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which amends ASC 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. This update allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets. An organization that elects to perform a qualitative assessment is required to perform the quantitative impairment test for an indefinite-lived intangible asset if it is more likely than not that the asset is impaired. This ASU will be effective for the Company beginning October 1, 2012, with early adoption permitted. The Company believes its adoption will not have a material impact on its consolidated financial position or results of operations.

Adopted

Fair Value Measurements. In May 2011, the FASB issued ASU 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The ASU was issued to provide a consistent definition of fair value and to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. The Company adopted ASU 2011-04 as of January 1, 2012, which did not have a material impact on its consolidated financial position or results of operations.

Presentation of Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, which amends current comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other



Edgar Filing: CARDTRONICS INC - Form 10-Q

comprehensive income, or in two separate but consecutive statements. The Company adopted ASU 2011-05 as of January 1, 2012 and now reports comprehensive income in two separate but consecutive statements.

Testing Goodwill for Impairment. In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which amends ASC 350, Intangibles - Goodwill and Other. This update provides an entity with the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company adopted ASU 2011-08 as of January 1, 2012, which did not have a material impact on its consolidated financial position or results of operations.

(18) Supplemental Guarantor Financial Information

The Company's 2018 Notes are fully and unconditionally guaranteed on a joint and several basis by all of the Company's 100% owned domestic subsidiaries. The following information sets forth the condensed consolidating statements of operations and cash flows for the three and nine months ended September 30, 2012 and 2011 and the condensed consolidating balance sheets as of September 30, 2012 and December 31, 2011 of (1) Cardtronics, Inc., the parent company and issuer of the 2018 Notes ("Parent"); (2) all of the Company's 100% owned domestic subsidiaries on a combined basis (collectively, the "Guarantors"); and (3) the Company's international subsidiaries on a combined basis (collectively, the "Non-Guarantors"):

Condensed Consolidating Statements of Comprehensive Income

|  | Three Months Ended September 30, 2012 |            |                |              | Total   |
|--|---------------------------------------|------------|----------------|--------------|---------|
|  | Parent                                | Guarantors | Non-Guarantors | Eliminations |         |
|  | (In thousands)                        |            |                |              | \$      |
| Revenues   | \$ —                                  | \$ 161,759 | \$ 41,396      | \$ (4,126)   | 199,029 |
| Operating costs and expenses   | 2,758                                 | 133,459    | 41,081         | (3,601)      | 173,697 |
| Operating (loss) income  | (2,758)                               | 28,300     | 315            | (525)        | 25,332  |
| Interest (income) expense, net, including amortization of deferred financing costs | (867)                                 | 6,091      | 270            | —            | 5,494   |
| Equity in (earnings) losses of subsidiaries  | (22,181)                              | 379        | —              | 21,802       | —       |
| Other (income) expense, net  | —                                     | (1,269)    | 544            | (312)        | (1,037) |
| Income (loss) before income taxes  | 20,290                                | 23,099     | (499)          | (22,015)     | 20,875  |
| Income tax expense   | 7,371                                 | 798        | —              | —            | 8,169   |
| Net income (loss)  | 12,919                                | 22,301     | (499)          | (22,015)     | 12,706  |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|  |           |           |          |             |           |
|--|-----------|-----------|----------|-------------|-----------|
| Net loss attributable to noncontrolling interests  | —         | —         | —        | (191)       | (191)     |
| Net income (loss) attributable to controlling interests and available to common stockholders | 12,919    | 22,301    | (499)    | (21,824)    | 12,897    |
| Other comprehensive income (loss) attributable to controlling interests                      | 3,130     | (7,918)   | 2,197    | (104)       | (2,695)   |
| Comprehensive income attributable to controlling interests                                   | \$ 16,049 | \$ 14,383 | \$ 1,698 | \$ (21,928) | \$ 10,202 |

23

---

Edgar Filing: CARDTRONICS INC - Form 10-Q

Condensed Consolidating Statements of Comprehensive Income – continued

|   | Three Months Ended September 30, 2011 |            |                |              | Total     |
|---|---------------------------------------|------------|----------------|--------------|-----------|
|   | Parent<br>(In thousands)              | Guarantors | Non-Guarantors | Eliminations |           |
|   |                                       |            |                |              | \$        |
| Revenues  | \$ —                                  | \$ 134,047 | \$ 32,198      | \$ (1,186)   | 165,059   |
| Operating costs and expenses  | 2,446                                 | 108,907    | 32,055         | (1,192)      | 142,216   |
| Operating (loss) income   | (2,446)                               | 25,140     | 143            | 6            | 22,843    |
| Interest (income) expense, net, including<br>amortization of deferred financing costs           | (859)                                 | 5,404      | 1,049          | —            | 5,594     |
| Equity in (earnings) losses of subsidiaries   | (20,930)                              | 1,518      | —              | 19,412       | —         |
| Other expense (income), net   | 177                                   | (645)      | 786            | —            | 318       |
| Income (loss) before income taxes   | 19,166                                | 18,863     | (1,692)        | (19,406)     | 16,931    |
| Income tax benefit  | (27,628)                              | (2,241)    | —              | —            | (29,869)  |
| Net income (loss)   | 46,794                                | 21,104     | (1,692)        | (19,406)     | 46,800    |
| Net loss attributable to noncontrolling interests   | —                                     | —          | —              | (85)         | (85)      |
| Net income (loss) attributable to controlling<br>interests and available to common stockholders | 46,794                                | 21,104     | (1,692)        | (19,321)     | 46,885    |
| Other comprehensive income (loss) attributable<br>to controlling interests                      | 4,441                                 | (16,864)   | 133            | 257          | (12,033)  |
| Comprehensive income (loss) attributable to<br>controlling interests                            | \$ 51,235                             | \$ 4,240   | \$ (1,559)     | \$ (19,064)  | \$ 34,852 |

|   | Nine Months Ended September 30, 2012 |            |                |              | Total   |
|---|--------------------------------------|------------|----------------|--------------|---------|
|   | Parent<br>(In thousands)             | Guarantors | Non-Guarantors | Eliminations |         |
|   |                                      |            |                |              | \$      |
| Revenues  | \$ —                                 | \$ 478,401 | \$ 110,540     | \$ (6,852)   | 582,089 |
| Operating costs and expenses  | 8,910                                | 398,140    | 112,804        | (6,324)      | 513,530 |
| Operating (loss) income   | (8,910)                              | 80,261     | (2,264)        | (528)        | 68,559  |
| Interest (income) expense, net, including<br>amortization of deferred financing costs | (2,205)                              | 18,053     | 787            | —            | 16,635  |
| Equity in (earnings) losses of subsidiaries   | (57,939)                             | 5,200      | —              | 52,739       | —       |
| Other expense (income), net   | 8                                    | (2,803)    | 2,019          | (312)        | (1,088) |
| Income (loss) before income taxes   | 51,226                               | 59,811     | (5,070)        | (52,955)     | 53,012  |
| Income tax expense  | 18,682                               | 2,002      | —              | —            | 20,684  |
| Net income (loss)   | 32,544                               | 57,809     | (5,070)        | (52,955)     | 32,328  |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|  |           |           |            |             |          |
|--|-----------|-----------|------------|-------------|----------|
| Net loss attributable to noncontrolling interests  | —         | —         | —          | (62)        | (62)     |
| Net income (loss) attributable to controlling interests and available to common stockholders | 32,544    | 57,809    | (5,070)    | (52,893)    | 32,390   |
| Other comprehensive income (loss) attributable to controlling interests                      | 17,787    | (46,127)  | 2,806      | (126)       | (25,660) |
| Comprehensive income (loss) attributable to controlling interests                            | \$ 50,331 | \$ 11,682 | \$ (2,264) | \$ (53,019) | \$ 6,730 |

24

---

## Condensed Consolidating Statements of Comprehensive Income – continued

|   | Nine Months Ended September 30, 2011 |            |                |              | Total     |
|---|--------------------------------------|------------|----------------|--------------|-----------|
|   | Parent<br>(In thousands)             | Guarantors | Non-Guarantors | Eliminations |           |
|   |                                      |            |                |              | \$        |
| Revenues  | \$ —                                 | \$ 362,019 | \$ 91,504      | \$ (3,129)   | 450,394   |
| Operating costs and expenses  | 7,211                                | 294,603    | 91,547         | (3,145)      | 390,216   |
| Operating (loss) income   | (7,211)                              | 67,416     | (43)           | 16           | 60,178    |
| Interest (income) expense, net, including<br>amortization of deferred financing costs           | (158)                                | 12,030     | 3,713          | —            | 15,585    |
| Equity in (earnings) losses of subsidiaries   | (52,674)                             | 5,767      | —              | 46,907       | —         |
| Other expense (income), net   | 97                                   | (1,809)    | 1,970          | —            | 258       |
| Income (loss) before income taxes   | 45,524                               | 51,428     | (5,726)        | (46,891)     | 44,335    |
| Income tax benefit  | (16,560)                             | (1,205)    | —              | —            | (17,765)  |
| Net income (loss)   | 62,084                               | 52,633     | (5,726)        | (46,891)     | 62,100    |
| Net income attributable to noncontrolling<br>interests  | —                                    | —          | —              | 20           | 20        |
| Net income (loss) attributable to controlling<br>interests and available to common stockholders | 62,084                               | 52,633     | (5,726)        | (46,911)     | 62,080    |
| Other comprehensive income (loss) attributable<br>to controlling interests                      | 10,431                               | (27,890)   | (125)          | 158          | (17,426)  |
| Comprehensive income (loss) attributable to<br>controlling interests                            | \$ 72,515                            | \$ 24,743  | \$ (5,851)     | \$ (46,753)  | \$ 44,654 |

## Condensed Consolidating Balance Sheets

|   | As of September 30, 2012 |            |                | Eliminations | Total      |
|---|--------------------------|------------|----------------|--------------|------------|
|   | Parent                   | Guarantors | Non-Guarantors |              |            |
|   | (In thousands)           |            |                |              |            |
| <b>Assets:</b>                                      |                          |            |                |              |            |
| Cash and cash equivalents                           | \$ 93                    | \$ 6,709   | \$ 4,295       | \$ —         | \$ 11,097  |
| Accounts and notes receivable, net                  | 51,006                   | 42,085     | 9,602          | (54,762)     | 47,931     |
| Current portion of deferred tax asset, net          | 12,569                   | 3,352      | 43             | —            | 15,964     |
| Other current assets                                | 477                      | 11,633     | 11,622         | (41)         | 23,691     |
| Total current assets                                | 64,145                   | 63,779     | 25,562         | (54,803)     | 98,683     |
| Property and equipment, net                         | —                        | 153,224    | 84,862         | (329)        | 237,757    |
| Intangible assets, net                              | 4,902                    | 96,854     | 8,792          | —            | 110,548    |
| Goodwill  | —                        | 263,814    | 16,950         | —            | 280,764    |
| Investments in and advances to subsidiaries         | 177,265                  | 100,048    | —              | (277,313)    | —          |
| Intercompany receivable                             | 234,189                  | 41,157     | —              | (275,346)    | —          |
| Deferred tax asset, net                             | 31,484                   | 2,452      | 923            | —            | 34,859     |
| Prepaid expenses, deferred costs, and other assets  | —                        | 15,505     | 2,118          | —            | 17,623     |
| Total assets  | \$ 511,985               | \$ 736,833 | \$ 139,207     | \$ (607,791) | \$ 780,234 |
| <b>Liabilities and Stockholders' Equity:</b>        |                          |            |                |              |            |
| Current portion of long-term debt and notes payable | \$ —                     | \$ —       | \$ 1,598       | \$ —         | \$ 1,598   |
| Current portion of other long-term liabilities      | —                        | 23,483     | 1,460          | —            | 24,943     |
| Accounts payable and accrued liabilities            | 5,231                    | 120,975    | 27,159         | (54,798)     | 98,567     |
| Current portion of deferred tax liability, net      | —                        | —          | 967            | —            | 967        |
| Total current liabilities                           | 5,231                    | 144,458    | 31,184         | (54,798)     | 126,075    |
| Long-term debt                                      | 377,500                  | 18         | 1,736          | —            | 379,254    |
| Intercompany payable                                | —                        | 273,562    | 54,656         | (328,218)    | —          |
| Asset retirement obligations                        | —                        | 20,517     | 22,519         | —            | 43,036     |
| Other long-term liabilities                         | —                        | 102,117    | 498            | —            | 102,615    |
| Total liabilities                                   | 382,731                  | 540,672    | 110,593        | (383,016)    | 650,980    |
| Stockholders' equity                                | 129,254                  | 196,161    | 28,614         | (224,775)    | 129,254    |
| Total liabilities and stockholders' equity          | \$ 511,985               | \$ 736,833 | \$ 139,207     | \$ (607,791) | \$ 780,234 |

## Condensed Consolidating Balance Sheets — continued

|   | As of December 31, 2011  |            |                | Eliminations | Total      |
|---|--------------------------|------------|----------------|--------------|------------|
|   | Parent<br>(In thousands) | Guarantors | Non-Guarantors |              |            |
| <b>Assets:</b>                                      |                          |            |                |              |            |
| Cash and cash equivalents                           | \$ 1                     | \$ 4,721   | \$ 854         | \$ —         | \$ 5,576   |
| Accounts and notes receivable, net                  | 44,454                   | 37,141     | 6,065          | (46,793)     | 40,867     |
| Current portion of deferred tax asset, net          | 24,526                   | 2,339      | 37             | —            | 26,902     |
| Other current assets                                | 885                      | 10,890     | 9,316          | (6)          | 21,085     |
| Total current assets                                | 69,866                   | 55,091     | 16,272         | (46,799)     | 94,430     |
| Property and equipment, net                         | —                        | 124,892    | 66,551         | (112)        | 191,331    |
| Intangible assets, net                              | 5,546                    | 98,649     | 7,408          | —            | 111,603    |
| Goodwill  | —                        | 255,465    | 16,097         | —            | 271,562    |
| Investments in and advances to subsidiaries         | 150,525                  | 100,048    | —              | (250,573)    | —          |
| Intercompany receivable                             | 240,825                  | 5,820      | —              | (246,645)    | —          |
| Deferred tax asset, net                             | 20,278                   | 1,933      | 890            | —            | 23,101     |
| Prepaid expenses, deferred costs, and other assets  | —                        | 18,184     | 2,590          | —            | 20,774     |
| Total assets  | \$ 487,040               | \$ 660,082 | \$ 109,808     | \$ (544,129) | \$ 712,801 |
| <b>Liabilities and Stockholders' Equity:</b>        |                          |            |                |              |            |
| Current portion of long-term debt and notes payable | \$ —                     | \$ —       | \$ 2,317       | \$ —         | \$ 2,317   |
| Current portion of other long-term liabilities      | —                        | 22,729     | 2,372          | —            | 25,101     |
| Accounts payable and accrued liabilities            | 7,895                    | 126,865    | 23,319         | (46,794)     | 111,285    |
| Current portion of deferred tax liability, net      | —                        | —          | 927            | —            | 927        |
| Total current liabilities                           | 7,895                    | 149,594    | 28,935         | (46,794)     | 139,630    |
| Long-term debt                                      | 366,000                  | 27         | 2,605          | —            | 368,632    |
| Intercompany payable                                | —                        | 269,331    | 30,185         | (299,516)    | —          |
| Asset retirement obligations                        | —                        | 18,095     | 16,422         | —            | 34,517     |
| Other long-term liabilities                         | —                        | 55,969     | 908            | —            | 56,877     |
| Total liabilities                                   | 373,895                  | 493,016    | 79,055         | (346,310)    | 599,656    |
| Stockholders' equity                                | 113,145                  | 167,066    | 30,753         | (197,819)    | 113,145    |
| Total liabilities and stockholders' equity          | \$ 487,040               | \$ 660,082 | \$ 109,808     | \$ (544,129) | \$ 712,801 |

## Condensed Consolidating Statements of Cash Flows

|  | Nine Months Ended September 30, 2012 |            |                |              | Total     |
|--|--------------------------------------|------------|----------------|--------------|-----------|
|  | Parent<br>(In thousands)             | Guarantors | Non-Guarantors | Eliminations |           |
| Net cash (used in) provided by operating activities  | \$ (4,144)                           | \$ 79,600  | \$ 19,101      | \$ (232)     | \$ 94,325 |
| Additions to property and equipment  | —                                    | (50,913)   | (24,962)       | —            | (75,875)  |
| Payments for exclusive license agreements, site acquisition costs, and other intangible assets | —                                    | (1,459)    | (3,258)        | —            | (4,717)   |
| Intercompany fixed asset mark-up   | —                                    | —          | (232)          | 232          | —         |
| Funding of intercompany notes payable  | (178,075)                            | (11,797)   | —              | 189,872      | —         |
| Payments received on intercompany notes payable  | 170,145                              | —          | —              | (170,145)    | —         |
| Acquisitions   | —                                    | (17,663)   | (222)          | —            | (17,885)  |
| Net cash used in investing activities  | (7,930)                              | (81,832)   | (28,674)       | 19,959       | (98,477)  |
| Proceeds from borrowings of long-term debt   | 207,900                              | —          | —              | —            | 207,900   |
| Repayments of long-term debt and capital leases  | (196,400)                            | (9)        | (1,987)        | —            | (198,396) |
| Proceeds from intercompany notes payable   | —                                    | 174,374    | 15,498         | (189,872)    | —         |
| Repayments of intercompany notes payable   | —                                    | (170,145)  | —              | 170,145      | —         |
| Repayments of borrowings under bank overdraft facility, net                                    | —                                    | —          | (162)          | —            | (162)     |
| Proceeds from exercises of stock options   | 5,128                                | —          | —              | —            | 5,128     |
| Repurchase of capital stock  | (4,462)                              | —          | —              | —            | (4,462)   |
| Net cash provided by financing activities  | 12,166                               | 4,220      | 13,349         | (19,727)     | 10,008    |
| Effect of exchange rate changes on cash  | —                                    | —          | (335)          | —            | (335)     |
| Net increase in cash and cash equivalents  | 92                                   | 1,988      | 3,441          | —            | 5,521     |
| Cash and cash equivalents as of beginning of period  | 1                                    | 4,721      | 854            | —            | 5,576     |
| Cash and cash equivalents as of end of period  | \$ 93                                | \$ 6,709   | \$ 4,295       | \$ —         | \$ 11,097 |



Edgar Filing: CARDTRONICS INC - Form 10-Q

Condensed Consolidating Statements of Cash Flows — continued

|  | Nine Months Ended September 30, 2011 |            |                | Eliminations | Total     |
|--|--------------------------------------|------------|----------------|--------------|-----------|
|  | Parent<br>(In thousands)             | Guarantors | Non-Guarantors |              |           |
| Net cash (used in) provided by operating activities  | \$ (1,795)                           | \$ 66,878  | \$ 4,269       | \$ —         | \$ 69,352 |
| Additions to property and equipment  | —                                    | (21,216)   | (13,438)       | —            | (34,654)  |
| Payments for exclusive license agreements, site acquisition costs, and other intangible assets | —                                    | (514)      | (1,892)        | —            | (2,406)   |
| Investment in subsidiary   | —                                    | (100,048)  | —              | 100,048      | —         |
| Funding of intercompany notes payable  | (255,439)                            | —          | —              | 255,439      | —         |
| Payments received on intercompany notes payable  | 140,469                              | 93,663     | —              | (234,132)    | —         |
| Acquisitions   | —                                    | (143,627)  | —              | —            | (143,627) |
| Net cash used in investing activities  | (114,970)                            | (171,742)  | (15,330)       | 121,355      | (180,687) |
| Proceeds from borrowings of long-term debt   | 317,638                              | —          | —              | —            | 317,638   |
| Repayments of long-term debt and capital leases  | (207,538)                            | —          | (2,275)        | —            | (209,813) |
| Proceeds from intercompany notes payable   | —                                    | 247,667    | 7,772          | (255,439)    | —         |
| Repayments of intercompany notes payable   | —                                    | (140,469)  | (93,663)       | 234,132      | —         |
| Repayments from borrowings under bank overdraft facility, net                                  | —                                    | —          | (1,042)        | —            | (1,042)   |
| Proceeds from exercises of stock options   | 10,102                               | —          | —              | —            | 10,102    |
| Repurchase of capital stock  | (2,859)                              | —          | —              | —            | (2,859)   |
| Issuance of capital stock  | —                                    | —          | 100,048        | (100,048)    | —         |
| Debt issuance and modification costs   | (655)                                | —          | —              | —            | (655)     |
| Net cash provided by financing activities  | 116,688                              | 107,198    | 10,840         | (121,355)    | 113,371   |
| Effect of exchange rate changes on cash  | —                                    | —          | (19)           | —            | (19)      |
| Net (decrease) increase in cash and cash equivalents   | (77)                                 | 2,334      | (240)          | —            | 2,017     |
| Cash and cash equivalents as of beginning of period  | 81                                   | 2,219      | 889            | —            | 3,189     |
| Cash and cash equivalents as of end of period  | \$ 4                                 | \$ 4,553   | \$ 649         | \$ —         | \$ 5,206  |



CAUTIONARY STATEMENT REGARDING FORWARD—LOOKING STATEMENTS

Certain statements and information in this Form 10-Q may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could” or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we currently anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- our financial outlook and the financial outlook of the ATM industry;
- our ability to respond to recent and future network and regulatory changes, including the Americans with Disabilities Act (“ADA”) and the potential requirements surrounding Europay, MasterCard and Visa (“EMV”) security standards;
- our ability to respond to potential reductions in the amount of net interchange fees that we receive from global and regional debit networks for transactions conducted on our ATMs due to pricing changes implemented by those networks as well as changes in how issuers route their ATM transactions over those networks;
- our ability to provide new ATM solutions to retailers and financial institutions;
- our ATM vault cash rental needs, including potential liquidity issues with our vault cash providers;
- the continued implementation of our corporate strategy;
- our ability to compete successfully with new and existing competitors;
- our ability to renew and strengthen our existing customer relationships and add new customers;
- our ability to meet the service levels required by our service level agreements with our customers;
- our ability to pursue and successfully integrate acquisitions;
- our ability to successfully manage our existing international operations and to continue to expand internationally;
- our ability to prevent security breaches;
- our ability to manage the risks associated with our third-party service providers failing to perform their contractual obligations;
- our ability to manage concentration risks with key customers, vendors, and service providers;
- changes in interest rates and foreign currency rates;
- the additional risks we are exposed to in our U.K. armored transport business; and
- our ability to retain our key employees.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see (1) Part II, “Item 1A. Risk Factors” in this Form 10-Q and (2) Part I, “Item 1A. Risk Factors” in the 2011 Form 10 K.

Readers are cautioned not to place undue reliance on forward-looking statements contained in this document, which speak only as of the date of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events

or otherwise.

30

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Cardtronics, Inc. provides convenient automated consumer financial services through its network of automated teller machines ("ATMs") and multi-function financial services kiosks. As of September 30, 2012, we were the world's largest retail ATM owner, providing services to over 61,700 devices throughout the United States ("U.S.") (including the U.S. territories of Puerto Rico and the U.S. Virgin Islands), the United Kingdom ("U.K."), Mexico and Canada. Included within the number of devices in the U.S. are approximately 2,200 multi-function financial services kiosks that, in addition to traditional ATM functions such as cash dispensing and bank account balance inquiries, perform other consumer financial services, including bill payments, check cashing, remote deposit capture (which represents deposits taken using electronic imaging at ATMs not physically located at a bank), and money transfers. Also included in the number of devices in our network as of September 30, 2012 were approximately 6,000 ATMs to which we provided various forms of managed services. Under a managed services arrangement, retailers and financial institutions rely on us to handle some or all of the operational aspects associated with operating and maintaining the ATMs, typically in exchange for a monthly service fee or fee per service provided. We typically do not receive surcharge and interchange fees in these arrangements, but rather those fees are earned by our customers.

We also partner with leading national and regional financial institutions to brand selected ATMs and financial services kiosks within our network. As of September 30, 2012, approximately 17,300 of our domestic devices were under contract with financial institutions to place their logos on those machines and to provide convenient surcharge-free access for their banking customers. In return for the branding that we provide, we receive monthly fees on a per ATM basis from the branding institution, while retaining our standard fee schedule for non-customers of the financial institutions who use the branded ATMs.

Additionally, we own and operate the Allpoint network, the largest surcharge-free ATM network within the U.S. (based on the number of participating ATMs). The Allpoint network, which has more than 52,400 participating ATMs globally, provides surcharge-free ATM access to customers of participating financial institutions that lack a significant ATM network in exchange for either a fixed monthly fee per cardholder or a set fee per transaction that is paid by the financial institutions who are members of the network. The Allpoint network includes a majority of our ATMs in the U.S., Puerto Rico and Mexico, all of our ATMs in the U.K., and over 5,000 locations in Australia through a partnership with a local ATM owner and operator. Allpoint also works with financial institutions that manage stored-value debit card programs on behalf of corporate entities and governmental agencies, including general purpose, payroll, and electronic benefits transfer ("EBT") cards. Under these programs, the issuing financial institutions pay Allpoint a fee per card or per transaction in return for allowing the users of those cards surcharge-free access to Allpoint's participating ATM network.

Finally, we own and operate an electronic funds transfer ("EFT") transaction processing platform that provides transaction processing services to our network of ATMs and financial services kiosks as well as ATMs owned and operated by third parties. For additional discussion of our operations and the manner in which we derive revenues, please refer to our Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K").

## Strategic Outlook

Over the past several years, we have expanded our operations through acquisitions, built an EFT transaction processing platform, launched our armored courier operation in the U.K., continued to deploy ATMs in high-traffic locations under contracts with well-known retailers, expanded our relationships with leading financial institutions, grown our surcharge-free ATM network, Allpoint, and developed new product offerings such as managed ATM services.

During 2011, we completed four separate acquisitions: (1) in July, we acquired all of the outstanding securities of EDC ATM Subsidiary, LLC and Efarm Deployment I, Inc. (collectively referred to as “EDC”) from EDC Holding Company, LLC, which provided us with over 3,600 ATMs that are primarily located in well-known convenience store locations throughout the U.S.; (2) in August, we completed the acquisition of LocatorSearch, LLC (“LocatorSearch”), a leading provider of location search technology deployed by financial institutions to help customers and members find the nearest, most appropriate and convenient ATM location based on the service they seek; (3) in October, we acquired Mr. Cash ATM Network, Inc. (“Mr. Cash”), a privately-held company with approximately 600 ATMs across Canada, which allowed us to expand our international presence into Canada; and (4) in November, we completed the acquisition of Access to Money, Inc. (“Access to Money”), a leading operator of ATMs, with approximately 10,000 ATMs across the U.S., including both multi-unit regional retail chains and individual merchant ATM locations. Additionally, during the quarter ended March 31, 2012, we acquired certain assets from Complete Technical Services Limited (“CTS”), an ATM installation company in the U.K., and during the quarter ended September 30, 2012, we acquired certain assets from ATM Network, Inc. (“ATM Network”), a Minnesota-based ATM operator of approximately 6,200 mostly merchant-owned ATMs.

While we will continue to explore potential acquisition opportunities in the future as a way to grow our business, we will also continue to launch new products and services that will allow us to further leverage our existing ATM and financial services kiosk network. In particular, we see opportunities to expand our operations through the following:

- Increasing our Number of Deployed Devices with Existing as well as New Merchant Relationships. We believe that there is a significant opportunity to deploy additional ATMs with our existing retail customers in locations that currently do not have ATMs. Furthermore, many of our retail customers continue to expand their number of active store locations, either through acquisitions or through new store openings, thus providing us with additional ATM deployment opportunities. Furthermore, we are actively pursuing opportunities to deploy ATMs with new retailers, including retailers that currently do not have ATMs, as well as those that have existing ATM programs but that are looking for a new ATM provider. We believe that our size and scale, as well as our proven operational track record, position us well to capitalize on these opportunities as they arise.
- Expand our Relationships with Leading Financial Institutions. Through our merchant relationships as well as our diverse product and service offerings, we believe we can provide our existing financial institution customers with convenient solutions to fulfill their growing ATM and automated consumer financial services requirements. Further, we believe we can leverage these offerings to attract additional financial institutions as customers. Our services currently offered to financial institutions include branding our ATMs with their logos, providing remote deposit capture, providing surcharge-free access to their customers through our Allpoint network, and offering managed services for their ATM portfolios. The number of machines and financial institutions participating in our Allpoint network are also increasing, enabling us to increase transaction counts and profitability on our existing machines.
- Working with Non-Traditional Financial Institutions and Card Issuers to Further Leverage our Extensive ATM and Financial Services Kiosk Network. We believe that there are opportunities to develop relationships with non-traditional financial institutions and card issuers that are seeking an extensive and convenient ATM network to complement their new card offerings. Additionally, we believe that many of the prepaid debit card issuers that exist today in the U.S. can benefit by providing their cardholders with access to our ATM network on a discounted or fee-free basis. For example, through our Allpoint network, we have sold access to our ATM network to issuers of stored value prepaid debit cards to provide the customers of such issuers with convenient and surcharge-free access to cash.
- Increasing Transaction Levels at our Existing Locations. We believe that there are opportunities to increase the number of transactions that are occurring today at our existing ATM locations. On average, only a small fraction of the customers that enter our retail customers' locations utilize our ATMs and financial services kiosks. In addition to our existing initiatives that tend to drive additional transaction volumes to our ATMs, such as bank branding and network branding, we are working on developing new initiatives to potentially drive incremental transactions over our existing ATM locations. Examples of this effort are our 2011 acquisition of LocatorSearch, which helps consumers find our ATMs, and the launch of FeeAlert in the third quarter of 2012, which enables financial institutions to help their customers save money by steering them toward nearby in-network ATMs and away from ATM fees.
- Pursue Additional Managed Services Opportunities. Over the last couple of years, we significantly expanded the number of ATMs that are operated under our managed services arrangement type. We plan to pursue additional opportunities with leading merchants and financial institutions in the U.S., as well as international opportunities as they arise, working with our customers to provide them with a customized solution that fits their needs.
- International Expansion. We currently operate in the U.S. (including the territories of Puerto Rico and the U.S. Virgin Islands), the U.K., Mexico, and Canada. We believe that there may be further opportunities to expand our business outside the U.S., though such opportunities may take an extended period of time to develop due to rapidly changing governmental and regulatory environments in those markets.

Longer term, we believe there are opportunities to not only expand our ATM and financial services kiosk network, but to also expand the types of services that we offer through that network. We believe that recent industry regulatory changes coupled with the proliferation of stored-value prepaid debit cards provide us with a unique opportunity to leverage our extensive retail ATM and financial services kiosk network to provide a broader array of automated financial services to financial institutions and card issuers. For example, with recently enacted and pending regulatory changes with respect to credit cards, debit cards, and traditional demand deposit accounts, there is a considerable amount of uncertainty surrounding many of the revenue streams traditionally earned by financial institutions. As a result, we believe that our network of ATMs located in prime retail locations represents an attractive and affordable option for financial institutions looking to continue to expand their ATM network in a cost-effective manner. Additionally, we believe that the deployment of devices that perform other financial services, including check cashing, remote deposit capture, money transfer, bill payment services, and stored-value card reload services, could provide a compelling and cost-effective solution for financial institutions and stored-value prepaid debit card issuers looking to provide the convenience of branch banking in an off-premise retail setting.

#### Recent Events and Trends

Withdrawal Transaction and Revenue Trends – United States. For the three and nine months ended September 30, 2012, total same-store cash withdrawal transactions conducted on our domestic ATMs increased by 5.3% and 7.4% over the same periods in 2011. We define same-store ATMs as all ATMs that were continuously transacting for both the current period and the comparable



period in the prior year to ensure the exclusion of any new growth or mid-month installations. We believe that the overall recent increase in transactions was primarily attributable to two factors: (1) a continued shift in the mix of withdrawal transactions being conducted on our domestic network of ATMs (i.e., more surcharge-free and less surcharge-based withdrawal transactions) resulting from the continued evolution and growth of our surcharge-free product offerings; and (2) the proliferation in the use of network-branded stored-value cards by employers and governmental agencies for payroll and benefit-related payments, as well as cashing of tax refunds during the first quarter of 2012 that were issued on prepaid cards. With respect to transaction increases driven by stored-value cards, the number of stored-value cards in circulation has increased, which has served to increase our potential customer base, as these stored-value cards are capable of being used at ATMs, and many of the individuals to whom the cards have been issued are traditionally unbanked or under-banked and have not historically been able to utilize ATMs. We expect to continue to see an increase in the number of stored-value cards in the future, which we believe will result in an increase in the number of cash withdrawal transactions being conducted on our domestic ATMs.

In addition, many U.S. banks serving the market for consumer banking services are aggressively competing for market share, and part of their competitive strategy is to increase their number of customer touch points, including the establishment of an ATM network to provide convenient, surcharge-free access to cash for their customers. While a large owned-ATM network would be a key strategic asset for a bank, we believe it would be uneconomical for all but the largest banks to build and operate an extensive ATM network. Bank branding of ATMs and participation in surcharge-free networks allow financial institutions to rapidly increase surcharge-free ATM access for their customers at substantially lower cost than building their own ATM networks. We also believe there is an opportunity for a large non-bank ATM and financial services kiosk operator such as ourselves, with lower costs and an established operating history, to contract with financial institutions and retailers to manage their ATM networks. Such an outsourcing arrangement could reduce a financial institution's operational costs while extending its customer service. Furthermore, we believe there are opportunities to provide selected services on an outsourced basis, such as transaction processing services, to other independent owners and operators of ATMs and financial services kiosks. These factors have led to an increase in bank branding, participation in surcharge-free networks, and managed services arrangements, and we believe that there will be continued growth in such arrangements.

Financial Regulatory Reform in the United States. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which contains broad measures aimed at overhauling existing financial regulations within the U.S., was signed into law on July 21, 2010. Among many other things, the Dodd-Frank Act includes provisions that (1) have resulted in the creation of a new Bureau of Consumer Financial Protection, (2) limit the activities that banking entities may engage in, and (3) give the Federal Reserve the authority to regulate interchange transaction fees charged by EFT networks for electronic debit transactions at the point-of-sale. ATM debit transactions were determined not to be subject to regulation under the Dodd-Frank Act. As a result of the Dodd-Frank Act, we have seen networks and banks take different actions to attempt to mitigate reductions to fees that they previously earned on certain transaction types, such as point-of-sale debit interchange. As potentially an indirect consequence, we have been notified by certain networks over which our ATM transactions are routed that the net interchange that the networks pay to us has been reduced. Other possible impacts of this broad legislation are unknown to us at this time, but we have seen certain actions taken by banks that indicate debit cards are no longer as an attractive form of payment as they previously had been. Decreased profitability on point-of-sale debit transactions could cause banks to provide incentives to their customers to use other payment types, such as credit cards. We also believe that merchant retailers may continue to have a preference to receive cash as a form of payment. In addition, there are other components to the Dodd-Frank Act that may ultimately impact us, but at this time, we are uncertain as to what impact the existing and future laws, and the resulting behavior by consumers and financial institutions, will ultimately have on our business.

Withdrawal Transaction and Revenue Trends – United Kingdom. In recent periods, we have installed more free-to-use ATMs as opposed to surcharging pay-to-use ATMs in the U.K. market, and as a result of this mix shift, along with a same-store transaction growth rate of 5% on this ATM type during the nine months ended September 30, 2012, withdrawal transactions per ATM in the U.K. increased by 16% over the nine months ended September 30, 2011. Although we earn less revenue per cash withdrawal transaction on a free-to-use machine, the increase in the number of transactions conducted on free-to-use machines has generally translated into higher overall revenues. However, interchange rates in the U.K., which are set by LINK, the U.K.'s primary ATM debit network, were reduced slightly effective as of January 1, 2012. LINK sets the interchange rates in the U.K. annually by using a cost-based methodology that incorporates interest rates and other ATM service costs from two years back (i.e., interest rates and other costs from 2010 are considered for determining the 2012 interchange rate). The lower interchange rate has served to decrease the margin we earn on our free-to-use ATMs in this market.

Revenue Trends – Mexico. In October 2011, we were notified by a major global network that certain of our U.S. dollar-dispensing ATMs (“USD ATMs”) in Mexico were not in compliance with that network’s procedures for settling U.S. dollar-denominated transactions through Promoción y Operación S.A. de C.V. (“PROSA-RED”). In September 2012, we successfully migrated all of our USD ATMs to a new process that allows us to continue operating these machines. This process has resulted in a reduction of the revenues and profits we earn from our USD ATMs in Mexico, although we do not expect that this change will have a material impact on our consolidated operational results.

Expansion in Canada. We entered the Canadian market in October 2011 through our acquisition of Mr. Cash. Part of our initial strategy to grow in that market was to leverage existing relationships with merchant retailers with whom we have significant existing relationships in the U.S. During the first quarter of 2012, we executed on that strategy by reaching a multi-year agreement with 7-Eleven, Inc. (“7-Eleven”), our largest merchant retail partner in the U.S., to be the exclusive ATM service provider for all of their

stores in Canada. As part of this agreement, we have installed over 475 new ATMs as of September 30, 2012 and we expect to significantly grow our business in this market in 2012 and beyond. Also, during the second quarter of 2012, we executed a contract with Scotiabank to place its bank brand on all of the 7-Eleven ATMs in Canada, which has further increased the transactions and revenues of these ATMs. Finally, during the third quarter of 2012, all of the 7-Eleven ATMs in Canada were included in our Allpoint network. We are actively seeking other similar expansion opportunities with existing and new merchant partners in this market.

34

---

## Results of Operations

The following table sets forth line items from our Consolidated Statements of Operations as a percentage of total revenues for the periods indicated. Percentages may not add due to rounding.

|   | Three Months<br>Ended<br>September 30,<br>2012 |   | 2011   |   | Nine Months Ended<br>September 30,<br>2012 |   | 2011  |   |
|---|--|---|--------|---|--|---|-------|---|
| Revenues:   |  |   |        |   |  |   |       |   |
| ATM operating revenues  | 96.2   | % | 95.5   | % | 94.6                                       | % | 96.0  | % |
| ATM product sales and other revenues  | 3.8  |   | 4.5    |   | 5.4  |   | 4.0   |   |
| Total revenues  | 100.0  |   | 100.0  |   | 100.0                                      |   | 100.0 |   |
| Cost of revenues:   |  |   |        |   |  |   |       |   |
| Cost of ATM operating revenues (excludes depreciation, accretion, and amortization shown separately below) <sup>(1)</sup> | 65.3   |   | 62.8   |   | 64.3                                       |   | 63.4  |   |
| Cost of ATM product sales and other revenues  | 3.3  |   | 3.9    |   | 4.8  |   | 3.6   |   |
| Total cost of revenues  | 68.7   |   | 66.8   |   | 69.1                                       |   | 67.0  |   |
| Gross profit  | 31.3   |   | 33.2   |   | 30.9                                       |   | 33.0  |   |
| Operating expenses:   |  |   |        |   |  |   |       |   |
| Selling, general, and administrative expenses   | 7.7  |   | 8.3    |   | 8.2  |   | 8.8   |   |
| Acquisition-related expenses  | 0.2  |   | 0.6    |   | 0.3  |   | 0.3   |   |
| Depreciation and accretion expense  | 7.9  |   | 7.4    |   | 7.6  |   | 7.8   |   |
| Amortization expense  | 2.8  |   | 3.0    |   | 2.8  |   | 2.7   |   |
| (Gain) loss on disposal of assets   | —  |   | 0.1    |   | 0.1  |   | 0.1   |   |
| Total operating expenses  | 18.6   |   | 19.4   |   | 19.1                                       |   | 19.7  |   |
| Income from operations  | 12.7   |   | 13.8   |   | 11.8                                       |   | 13.4  |   |
| Other expense (income):   |  |   |        |   |  |   |       |   |
| Interest expense, net   | 2.6  |   | 3.2    |   | 2.7  |   | 3.3   |   |
| Amortization of deferred financing costs  | 0.1  |   | 0.2    |   | 0.1  |   | 0.2   |   |
| Other (income) expense  | (0.5)  |   | 0.2    |   | (0.2)                                      |   | 0.1   |   |
| Total other expense   | 2.2  |   | 3.6    |   | 2.7  |   | 3.5   |   |
| Income before income taxes  | 10.5   |   | 10.3   |   | 9.1  |   | 9.8   |   |
| Income tax expense (benefit)  | 4.1  |   | (18.1) |   | 3.6  |   | (3.9) |   |
| Net income  | 6.4  |   | 28.4   |   | 5.6  |   | 13.8  |   |
| Net (loss) income attributable to noncontrolling interests  | (0.1)  |   | (0.1)  |   | —  |   | —     |   |
| Net income attributable to controlling interests and available to common stockholders                                     | 6.5  | % | 28.4   | % | 5.6  | % | 13.8  | % |

(1) Excludes effects of depreciation, accretion, and amortization expense of \$19.1 million and \$15.5 million for the three months ended September 30, 2012 and 2011, respectively, and \$54.7 million and \$42.4 million for the nine months ended September 30, 2012 and 2011, respectively. The inclusion of this depreciation, accretion, and amortization expense in Cost of ATM operating revenues would have increased our Cost of ATM operating revenues as a percentage of total revenues by 9.6% and 9.4% for the three months ended September 30, 2012 and 2011, respectively, and by 9.4% and 9.4% for the nine months ended September 30, 2012 and 2011, respectively.

## Key Operating Metrics

We rely on certain key measures to gauge our operating performance, including total transactions, total cash withdrawal transactions, ATM operating revenues per ATM per month, and ATM operating gross profit margin. The following table sets forth information regarding certain of these key measures for the periods indicated, excluding the effect of the acquisitions of EDC, Access to Money, Mr. Cash, and ATM Network that were completed in the periods presented for comparative purposes. Note that for the EDC acquisition, only the results from January through July have been excluded, as all periods presented include results from this acquisition for the months of August and September:

| EXCLUDING ACQUISITIONS:                                | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2012                                | 2011    | 2012                               | 2011    |
| Average number of transacting ATMs:                    |                                     |         |                                    |         |
| United States: Company-owned                           | 23,414                              | 21,288  | 21,584                             | 19,881  |
| United Kingdom   | 4,175                               | 3,341   | 3,906                              | 3,187   |
| Mexico   | 2,768                               | 2,902   | 2,814                              | 2,906   |
| Canada   | 431                                 | —       | 178                                | —       |
| Subtotal   | 30,788                              | 27,531  | 28,482                             | 25,974  |
| United States: Merchant-owned                          | 7,177                               | 8,080   | 7,273                              | 8,192   |
| Average number of transacting ATMs – ATM operations    | 37,965                              | 35,611  | 35,755                             | 34,166  |
| United States: Managed services <sup>(1)</sup>         | 5,153                               | 4,525   | 5,178                              | 4,191   |
| United Kingdom: Managed services                       | 21                                  | 21      | 21                                 | 17      |
| Average number of transacting ATMs – Managed services  | 5,174                               | 4,546   | 5,199                              | 4,208   |
| Total average number of transacting ATMs               | 43,139                              | 40,157  | 40,954                             | 38,374  |
| Total transactions (in thousands):                     |                                     |         |                                    |         |
| ATM operations   | 169,030                             | 136,928 | 456,139                            | 366,727 |
| Managed services                                       | 9,127                               | 7,404   | 26,925                             | 18,934  |
| Total transactions                                     | 178,157                             | 144,332 | 483,064                            | 385,661 |
| Total cash withdrawal transactions (in thousands):     |                                     |         |                                    |         |
| ATM operations   | 105,657                             | 84,237  | 284,001                            | 225,202 |
| Managed services                                       | 5,781                               | 4,832   | 16,829                             | 12,641  |
| Total cash withdrawal transactions                     | 111,438                             | 89,069  | 300,830                            | 237,843 |
| Per ATM per month amounts (excludes managed services): |                                     |         |                                    |         |
| Cash withdrawal transactions                           | 928                                 | 788     | 883                                | 732     |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|   |          |   |          |   |          |   |          |   |
|---|----------|---|----------|---|----------|---|----------|---|
| ATM operating revenues                              | \$ 1,497 |   | \$ 1,447 |   | \$ 1,458 |   | \$ 1,382 |   |
| Cost of ATM operating revenues <sup>(2)</sup>       | 1,006    |   | 948      |   | 970      |   | 910      |   |
| ATM operating gross profit <sup>(2)(3)</sup>        | \$ 491   |   | \$ 499   |   | \$ 488   |   | \$ 472   |   |
| ATM operating gross profit margin <sup>(2)(3)</sup> | 32.8     | % | 34.5     | % | 33.5     | % | 34.2     | % |

(1) Includes 2,719 and 2,519 ATMs for the three months ended September 30, 2012 and 2011, respectively, and 2,658 and 2,508 ATMs for the nine months ended September 30, 2012 and 2011, respectively, for which we only provided EFT transaction processing services.

(2) Amounts presented exclude the effect of depreciation, accretion, and amortization expense, which is presented separately in our consolidated statements of operations.

(3) ATM operating gross profit and ATM operating gross profit margin are measures of profitability that are calculated based on only the revenues and expenses that relate to operating ATMs in our portfolio. Revenues and expenses relating to managed services and ATM equipment sales and other ATM-related services are not included.

The following table sets forth information regarding certain of these key measures for the periods indicated, including the effect of the acquisitions of EDC, Access to Money, Mr. Cash, and ATM Network that were completed in the periods presented:

| INCLUDING ACQUISITIONS:                                | Three Months Ended    |          | Nine Months Ended     |          |
|--|-----------------------|----------|-----------------------|----------|
|  | September 30,<br>2012 | 2011     | September 30,<br>2012 | 2011     |
| Average number of transacting ATMs:                    |                       |          |                       |          |
| United States: Company-owned                           | 26,436                | 21,905   | 25,658                | 20,128   |
| United Kingdom   | 4,175                 | 3,341    | 3,906                 | 3,187    |
| Mexico   | 2,768                 | 2,902    | 2,814                 | 2,906    |
| Canada   | 1,003                 | —        | 720                   | —        |
| Subtotal   | 34,382                | 28,148   | 33,098                | 26,221   |
| United States: Merchant-owned                          | 19,006                | 8,080    | 16,977                | 8,192    |
| Average number of transacting ATMs – ATM operations    | 53,388                | 36,228   | 50,075                | 34,413   |
| United States: Managed services <sup>(1)</sup>         | 5,967                 | 4,525    | 5,899                 | 4,191    |
| United Kingdom: Managed services                       | 21                    | 21       | 21                    | 17       |
| Average number of transacting ATMs – Managed services  | 5,988                 | 4,546    | 5,920                 | 4,208    |
| Total average number of transacting ATMs               | 59,376                | 40,774   | 55,995                | 38,621   |
| Total transactions (in thousands):                     |                       |          |                       |          |
| ATM operations   | 184,393               | 136,928  | 513,984               | 366,727  |
| Managed services                                       | 10,051                | 7,404    | 29,620                | 18,934   |
| Total transactions                                     | 194,444               | 144,332  | 543,604               | 385,661  |
| Total cash withdrawal transactions (in thousands):     |                       |          |                       |          |
| ATM operations   | 117,070               | 84,237   | 326,343               | 225,202  |
| Managed services                                       | 6,446                 | 4,832    | 18,791                | 12,641   |
| Total cash withdrawal transactions                     | 123,516               | 89,069   | 345,134               | 237,843  |
| Per ATM per month amounts (excludes managed services): |                       |          |                       |          |
| Cash withdrawal transactions                           | 731                   | 775      | 724                   | 727      |
| ATM operating revenues                                 | \$ 1,170              | \$ 1,423 | \$ 1,196              | \$ 1,372 |
| Cost of ATM operating revenues <sup>(2)</sup>          | 791                   | 931      | 809                   | 903      |
| ATM operating gross profit <sup>(2)(3)</sup>           | \$ 379                | \$ 492   | \$ 387                | \$ 469   |
| ATM operating gross profit margin <sup>(2)(3)</sup>    | 32.4                  | % 34.6   | % 32.4                | % 34.2   |



- (1) Includes 2,719 and 2,519 ATMs for the three months ended September 30, 2012 and 2011, respectively, and 2,658 and 2,508 ATMs for the nine months ended September 30, 2012 and 2011, respectively, for which we only provided EFT transaction processing services.
- (2) Amounts presented exclude the effect of depreciation, accretion, and amortization expense, which is presented separately in our consolidated statements of operations.
- (3) ATM operating gross profit and ATM operating gross profit margin are measures of profitability that are calculated based on only the revenues and expenses that relate to operating ATMs in the our portfolio. Revenues and expenses relating to managed services and ATM equipment sales and other ATM-related services are not included.

## Revenues

|                                      | Three Months Ended September 30, |            |             | Nine Months Ended September 30, |            |             |
|--------------------------------------|----------------------------------|------------|-------------|---------------------------------|------------|-------------|
|                                      | 2012<br>(In thousands)           | 2011       | %<br>Change | 2012<br>(In thousands)          | 2011       | %<br>Change |
| ATM operating revenues               | \$ 191,469                       | \$ 157,636 | 21.5 %      | \$ 550,849                      | \$ 432,164 | 27.5 %      |
| ATM product sales and other revenues | 7,560                            | 7,423      | 1.8 %       | 31,240                          | 18,230     | 71.4 %      |
| Total revenues                       | \$ 199,029                       | \$ 165,059 | 20.6 %      | \$ 582,089                      | \$ 450,394 | 29.2 %      |

## Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

ATM operating revenues. ATM operating revenues generated during the three months ended September 30, 2012 increased \$33.8 million from the three months ended September 30, 2011. Below is the detail, by segment, of the changes in the various components of ATM operating revenues:

|   | Variance: Three Months Ended September 30, 2011 to<br>Three Months Ended September 30, 2012 |          |                        |           |
|---|---|----------|------------------------|-----------|
|   | U.S.  | U.K.     | Other<br>International | Total     |
|   | Increase (decrease)   |          |                        |           |
|   | (In thousands)  |          |                        |           |
| Surcharge revenue                                 | \$ 13,663   | \$ (914) | \$ 2,064               | \$ 14,813 |
| Interchange revenue                               | 4,315   | 5,484    | 1,369                  | 11,168    |
| Bank branding and surcharge-free network revenues | 5,036   | —        | 864                    | 5,900     |
| Managed services revenues                         | 1,122   | (1)      | —                      | 1,121     |
| Other revenues                                    | 882   | —        | (51)                   | 831       |
| Total increase in ATM operating revenues          | \$ 25,018   | \$ 4,569 | \$ 4,246               | \$ 33,833 |

United States. During the three months ended September 30, 2012, our U.S. operations experienced a \$25.0 million increase in ATM operating revenues compared to the same period in 2011. Of this increase, \$16.7 million was attributable to the contribution of entities acquired during the last twelve months, including EDC, Access to Money, LocatorSearch, and ATM Network. The remaining \$8.3 million increase was due to a combination of growth achieved from several revenue sources, including: (1) increased surcharge revenue as a result of a higher machine count and an increase in surcharge transactions; (2) increased interchange revenue as a result of a 12% increase in withdrawal transactions (excluding the increase from acquisitions), partially offset by a decline in the per withdrawal interchange rate as there was an interchange rate reduction by a major network that became effective during the second quarter of 2012 and a shift of volume to lower interchange rate networks; (3) an increase in bank branding and surcharge-free network revenues that resulted from the continued growth of participating banks and other financial institutions in our bank branding program and our Allpoint surcharge-free network; and (4) an increase in managed services revenue as a result of the expansion of these services in the past year.

For additional information on recent trends that have impacted, and may continue to impact, the revenues generated by our U.S. operations, see Recent Events and Trends - Withdrawal Transaction and Revenue Trends – United States above.

United Kingdom. Our U.K. operations experienced a \$4.6 million, or 18%, increase in ATM operating revenues during the three months ended September 30, 2012, when compared to the same period in 2011. This increase was due primarily to higher interchange revenues as a result of a 34% increase in the total number of transactions conducted on our ATMs in that market, partially offset by the reduction in the interchange rates that became effective at the beginning of the year in 2012. The increased level of transactions was primarily attributable to a 25% increase in the average number of transacting ATMs. Conversely, we experienced a decline in surcharge revenues generated by our U.K. operations as a result of same-store surcharge transaction declines and fewer overall surcharging ATMs compared to the prior year. Excluding the unfavorable impact of foreign currency exchange rate movements between the two periods, the total increase in ATM operating revenues for the period would have been \$5.1 million, or 20%, when compared to the same period in 2011.

For additional information on recent trends that have impacted, and may continue to impact, the revenues generated by our U.K. operations, see Recent Events and Trends - Withdrawal Transaction and Revenue Trends – United Kingdom above.

Other International. Revenues in this segment, which include the results of our Mexico operation and our Canadian subsidiary, contributed an additional \$4.2 million to the quarter ended September 30, 2012. The Canadian operations accounted for \$4.8 million of revenue growth in the period, which was partially offset by a decline in revenues in our Mexico operation primarily as a result of foreign currency exchange rate movements between the two periods, which unfavorably impacted the revenues recorded for our Mexico business for the three months ended September 30, 2012. Had foreign currency exchange rates remained constant over the two periods, reported revenues in our Mexico business would have remained flat over the same period in 2011. We entered the Canadian

market during the fourth quarter of 2011, and as a result, the prior year results do not include any contribution from revenues generated from our Canadian operation.

ATM product sales and other revenues. ATM product sales and other revenues for the three months ended September 30, 2012 totaled \$7.6 million and were \$0.1 million higher than the same period in 2011. Under our value-added reseller (“VAR”) program, we primarily sell ATMs to associate VARs who in turn resell the ATMs to various financial institutions throughout the U.S. in territories authorized by the equipment manufacturer. Although over the past year we experienced an increase in our VAR program sales, largely due to the replacement of certain ATMs that were not compliant with the new regulations under the Americans with Disabilities Act (“ADA”) that became effective during the first quarter of 2012, such sales are starting to slow down as the majority of ATMs are now compliant with these regulations.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

ATM operating revenues. ATM operating revenues generated during the nine months ended September 30, 2012 increased \$118.7 million from the nine months ended September 30, 2011. Below is the detail, by segment, of changes in the various components of ATM operating revenues:

|   | Variance: Nine Months Ended September 30,<br>2011 to<br>Nine Months Ended September 30, 2012 |            |                        |            |
|---|--|------------|------------------------|------------|
|   | U.S.   | U.K.       | Other<br>International | Total      |
|   | Increase (decrease)  |            |                        |            |
|   | (In thousands)   |            |                        |            |
| Surcharge revenue                                 | \$ 52,955  | \$ (3,998) | \$ 1,754               | \$ 50,711  |
| Interchange revenue                               | 24,852   | 15,568     | 2,064                  | 42,484     |
| Bank branding and surcharge-free network revenues | 16,336   | —          | 2,631                  | 18,967     |
| Managed services revenues                         | 4,710  | 15         | —                      | 4,725      |
| Other revenues                                    | 1,860  | —          | (62)                   | 1,798      |
| Total increase in ATM operating revenues          | \$ 100,713   | \$ 11,585  | \$ 6,387               | \$ 118,685 |

United States. During the nine months ended September 30, 2012, our U. S. operations experienced a \$100.7 million, or 30%, increase in ATM operating revenues compared to the same period in 2011. The acquisitions made in 2011 and 2012 contributed \$69.0 million to this increase. The remaining \$31.7 million increase was primarily due to the same reasons mentioned above in the quarterly results, including: (1) increased surcharge revenue as a result of a higher machine count and an increase in surcharge transactions; (2) increased interchange revenue as a result of an increase in withdrawal transactions (excluding the increase from acquisitions), partially offset by a decline in the per withdrawal interchange rate as there was an interchange rate reduction by a major network that became effective during the second quarter of 2012 and a shift of volume to lower interchange rate networks; (3) an increase in bank

branding and surcharge-free network revenues that resulted from the continued growth of participating banks and other financial institutions in our bank branding program and our Allpoint surcharge-free network; and (4) an increase in managed services revenue as a result of the expansion of these services in the past year.

United Kingdom. Our U.K. operations also contributed to the higher ATM operating revenues for the nine months ended September 30, 2012, which increased by \$11.6 million, or 16%, from the first nine months of 2011. As was the case with the three month period, this increase was primarily driven by higher interchange revenues as a result of a 37% increase in the total number of transactions conducted on our ATMs in that market, which was partially offset by a decline in surcharge revenues. The higher interchange revenues in the period was mostly due to 23% higher average number of transacting ATMs during the period. We continued to convert additional ATMs from surcharging to free-to-use over the past year, resulting in a higher percentage of our revenues being from this machine type. Excluding the unfavorable impact of foreign currency exchange rate movements between the two periods, the total increase in ATM operating revenues for the period would have been \$13.5 million, or 19%, when compared to the same period in 2011.

Other International. Our Other International operations experienced a \$6.4 million, or 33%, increase in revenues during the nine months ended September 30, 2012 over the same period in 2011. The majority of the increase was attributable to our Canadian operations, which commenced with our acquisition of Mr. Cash in Canada in October 2011. ATM operating revenues in our Mexico operations remained relatively flat, primarily due to organic growth from bank branding, which was mostly offset by an adverse change in foreign currency exchange rates. Without the unfavorable effect of foreign currency exchange rate movement, revenues from our Mexico operations would have increased over the prior year by \$1.9 million.

ATM product sales and other revenues. ATM product sales and other revenues for the nine months ended September 30, 2012 was \$13.0 million higher than those generated during the same period in 2011 primarily due to higher VAR program sales and equipment sales to merchants during the first half of 2012 for the continued replacement of certain noncompliant ATMs with the new regulations under the ADA that became effective during the first quarter of 2012.

## Cost of Revenues

|   | Three Months Ended September 30, |            |             | Nine Months Ended September 30, |            |             |
|---|----------------------------------|------------|-------------|---------------------------------|------------|-------------|
|   | 2012<br>(In thousands)           | 2011       | %<br>Change | 2012<br>(In thousands)          | 2011       | %<br>Change |
| Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) | \$ 130,064                       | \$ 103,727 | 25.4 %      | \$ 374,312                      | \$ 285,630 | 31.0 %      |
| Cost of ATM product sales and other revenues  | 6,665                            | 6,501      | 2.5 %       | 27,925                          | 16,062     | 73.9 %      |
| Total cost of revenues (exclusive of depreciation, accretion, and amortization)         | \$ 136,729                       | \$ 110,228 | 24.0 %      | \$ 402,237                      | \$ 301,692 | 33.3 %      |

## Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization). The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) for the three months ended September 30, 2012 increased \$26.3 million when compared to the same period in 2011. Below is a detail, by segment, of changes in the various components of the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization):

|  | Variance: Three Months Ended September 30, 2011 to<br>Three Months Ended September 30, 2012 |          |                        |           |
|--|---|----------|------------------------|-----------|
|  | U.S.  | U.K.     | Other<br>International | Total     |
|  | Increase (decrease)<br>(In thousands)   |          |                        |           |
| Merchant commissions                             | \$ 11,170   | \$ 1,452 | \$ 1,919               | \$ 14,541 |
| Vault cash rental expense                        | 1,768   | (41)     | 294                    | 2,021     |
| Other costs of cash                              | 1,143   | 1,126    | 409                    | 2,678     |
| Repairs and maintenance                          | 2,097   | 700      | 242                    | 3,039     |
| Communications                                   | 632   | 218      | 144                    | 994       |
| Transaction processing                           | 127   | 496      | 190                    | 813       |
| Stock-based compensation                         | (20)  | —        | —                      | (20)      |
| Other expenses                                   | 1,561   | 416      | 294                    | 2,271     |
| Total increase in cost of ATM operating revenues | \$ 18,478   | \$ 4,367 | \$ 3,492               | \$ 26,337 |

United States. As was the case with the increase in ATM revenues explained above, the acquisitions during 2012 and 2011 contributed significantly to the increase, accounting for approximately \$11.9 million. The remaining \$6.6 million increase was mostly due to a higher total machine count and higher transaction volumes on our ATMs, corresponding to the \$8.3 million increase in revenues excluding acquisitions discussed above.

United Kingdom. In the quarter ended September 30, 2012, our U.K. operations experienced a \$4.4 million, or 22%, increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) when compared to the same period in 2011. This overall increase was due primarily to a 25% year-over-year increase in the number of average transacting ATMs associated with our U.K. operations. As noted above in our discussion of revenues, the majority of our newly-deployed ATMs in the U.K. market are high transacting, free-to-use ATMs, which frequently carry relatively high operating costs as a percentage of revenues due to the higher amounts of cash required to operate the ATMs, more frequent cash fill rates (which are included in the Other costs of cash line item above), and a higher frequency of maintenance visits that are required to keep the ATMs operating. Excluding the impact of foreign currency exchange rate movements between the two periods, the total increase in the cost of ATM operating revenues for the period would have been \$4.8 million, or 25%, when compared to the same period in 2011.

Other International. As noted above in our discussion of revenues, this segment now includes our Canadian subsidiary, which increase the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) for the three months ended September 30, 2012. Our Mexico operations did not contribute significantly to the increase, although excluding the impact of foreign currency exchange rate movements, these operations would have contributed an additional \$0.4 million to the increase on a constant-currency basis.

Cost of ATM product sales and other revenues. The \$0.2 million increase in the cost of ATM product sales and other revenues during the three months ended September 30, 2012 compared to the same period in 2011 was primarily due to the continued increased equipment and VAR program sales during the period.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization). The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) for the nine months ended September 30, 2012 increased \$88.7 million when compared to the same period in 2011. Below is a detail, by segment, of changes in the various components of the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization):

|  | Variance: Nine Months Ended September 30,<br>2011 to<br>Nine Months Ended September 30, 2012 |           |                        |           |
|--|--|-----------|------------------------|-----------|
|  | U.S.   | U.K.      | Other<br>International | Total     |
|  | Increase (decrease)  |           |                        |           |
|  | (In thousands)   |           |                        |           |
| Merchant commissions                             | \$ 40,054  | \$ 4,317  | \$ 2,684               | \$ 47,055 |
| Vault cash rental expense                        | 7,494  | 98        | 94                     | 7,686     |
| Other costs of cash                              | 6,624  | 3,040     | 1,320                  | 10,984    |
| Repairs and maintenance                          | 8,697  | 1,154     | 253                    | 10,104    |
| Communications                                   | 2,618  | 250       | 207                    | 3,075     |
| Transaction processing                           | 1,364  | 950       | 464                    | 2,778     |
| Stock-based compensation                         | (15)   | —         | —                      | (15)      |
| Other expenses                                   | 4,978  | 1,634     | 403                    | 7,015     |
| Total increase in cost of ATM operating revenues | \$ 71,814  | \$ 11,443 | \$ 5,425               | \$ 88,682 |

United States. During the nine months ended September 30, 2012, the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) incurred by our U.S. operations increased \$71.8 million, or 33%, when compared to the cost incurred during the same period in 2011. The acquisitions made in 2011 and 2012 contributed \$51.4 million to this increase with the remainder of the increase resulting from higher total machine count in the U.S. that we provide services to (including managed services) and higher transaction volumes on our ATMs, driven by organic revenue growth.

United Kingdom. The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) of our U.K. operations increased during the nine months ended September 30, 2012 by \$11.4 million when compared to the same period in 2011. This overall increase was primarily due to the increased number of transacting ATMs, the increase in total number of transactions conducted on our machines and an increase in employee-related costs.



Excluding the impact of foreign currency exchange rate movements between the two periods, the total increase in the cost of ATM operating revenues for the period would have been \$12.9 million, or 24%, when compared to the same period in 2011.

Other International. The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) from our Other International operations increased by \$5.4 million during the nine months ended September 30, 2012 when compared to the same period in 2011 primarily due to the addition of our Canadian operations, which were acquired in October of 2011 and contributed \$4.7 million to the increase. The remaining \$0.7 million was a result of higher variable expenses in our Mexico operations associated with higher revenues in this market compared to the same period in the prior year on a constant-currency basis, which would have been higher by an additional \$1.5 million excluding the impact of exchange rate movements, compared to the same period last year.

Cost of ATM product sales and other revenues. Consistent with the 71% increase in ATM product sales and other revenues discussed above was a 74% increase in the cost of ATM product sales and other revenues during the nine months ended September 30, 2012 compared to the same period in 2011. These increases were primarily due to higher equipment and VAR program sales during the period.

## Gross Profit Margin

|  | Three Months<br>Ended<br>September 30,<br>2012 |        | Nine Months<br>Ended<br>September 30,<br>2011 |        |
|--|--|--------|---|--------|
| ATM operating gross profit margin:                       |  |        |   |        |
| Exclusive of depreciation, accretion, and amortization   | 32.1 %   | 34.2 % | 32.0 %  | 33.9 % |
| Inclusive of depreciation, accretion, and amortization   | 22.1 %   | 24.4 % | 22.1 %  | 24.1 % |
| ATM product sales and other revenues gross profit margin | 11.8 %   | 12.4 % | 10.6 %  | 11.9 % |
| Total gross profit margin:                               |  |        |   |        |
| Exclusive of depreciation, accretion, and amortization   | 31.3 %   | 33.2 % | 30.9 %  | 33.0 % |
| Inclusive of depreciation, accretion, and amortization   | 21.7 %   | 23.8 % | 21.5 %  | 23.6 % |

ATM operating gross profit margin. For the three and nine months ended September 30, 2012, our ATM operating gross profit margin exclusive of depreciation, accretion, and amortization decreased by 2.1 and 1.9 percentage points, respectively, when compared to the same periods in 2011. Additionally, our ATM operating gross profit margin inclusive of depreciation, accretion, and amortization decreased by 2.3 and 2.0 percentage points, respectively, during the three and nine months ended September 30, 2012, when compared to the same periods in 2011. These decreases were partly attributable to lower margins on the acquired businesses during the past twelve months and lower margins in our U.K operations, mostly associated with the recent installation of more free-to-use ATMs. Excluding the impact of acquisitions, our ATM operating margin decreased by approximately 1.7 and 0.7 percentage points, respectively, during the three and nine months ended September 30, 2012, as a result of interchange rate reductions that took effect during the second quarter of 2012, lower margins in our U.K. operations, and start-up costs associated with new ATMs deployed this year.

We expect that our gross profit margin in the remainder of 2012 will be relatively consistent with that of the most recent quarter.

ATM product sales and other revenues gross profit margin. For the three and nine months ended September 30, 2012, our gross profit margin on ATM product sales and other revenues decreased by 0.6 and 1.3 percentage points, respectively, when compared to the same periods in 2011. The decrease was due to slightly lower margins on VAR and equipment sales during the periods.

## Selling, General, and Administrative Expenses

| Three Months Ended September<br>30, | Nine Months Ended September<br>30, |
|-------------------------------------|------------------------------------|
|-------------------------------------|------------------------------------|

Edgar Filing: CARDTRONICS INC - Form 10-Q

|   | 2012           | 2011      | %       | 2012           | 2011      | %      |     |   |
|---|----------------|-----------|---------|----------------|-----------|--------|-----|---|
|   | (In thousands) |           | Change  | (In thousands) |           | Change |     |   |
| Selling, general, and administrative expenses       | \$ 12,840      | \$ 11,650 | 10.2 %  | \$ 40,019      | \$ 33,474 | 19.6 % |     |   |
| Stock-based compensation                            | 2,452          | 2,122     | 15.6 %  | 7,937          | 6,227     | 27.5 % |     |   |
| Acquisition-related expenses                        | 381            | 956       | (60.1)% | 1,858          | 1,299     | 43.0 % |     |   |
| Total selling, general, and administrative expenses | \$ 15,673      | \$ 14,728 | 6.4 %   | \$ 49,814      | \$ 41,000 | 21.5 % |     |   |
| Percentage of total revenues:                       |                |           |         |                |           |        |     |   |
| Selling, general, and administrative expenses       | 6.5            | %         | 7.1     | %              | 6.9       | %      | 7.4 | % |
| Stock-based compensation                            | 1.2            | %         | 1.3     | %              | 1.4       | %      | 1.4 | % |
| Acquisition-related expenses                        | 0.2            | %         | 0.6     | %              | 0.3       | %      | 0.3 | % |
| Total selling, general, and administrative expenses | 7.9            | %         | 8.9     | %              | 8.6       | %      | 9.1 | % |

Selling, general, and administrative expenses (“SG&A expenses”), excluding stock-based compensation. SG&A expenses, excluding stock-based compensation and acquisition-related expenses, increased \$1.2 million and \$6.5 million, respectively, for the three and nine months ended September 30, 2012 when compared to the same periods in 2011. These increases were primarily due to: (1) higher employee-related costs compared to the same periods last year due to increased headcount, including employees added from the acquisitions completed during the last twelve months; (2) increased incentive-based compensation expense; and (3) higher professional and legal expenses.

Stock-based compensation. The increase in stock-based compensation during the three and nine months ended September 30, 2012 was due to the issuance of additional shares of restricted stock awards and units granted over the past year. Particularly, during the first quarter of 2011 and 2012, we issued awards under our 2011 and 2012 Long Term Incentive Plans (“LTIPs”), respectively,

which initially vest based on performance-based requirements followed by continued service-based vesting requirements. Although these awards are not considered to be earned and outstanding when initially granted, we recognize the compensation expense related to these awards based on the ultimate awards we expect employees to earn as a result of our performance at the conclusion of the performance period. For additional details on these equity awards, see Item 1. Financial Information, Note 3, Stock-Based Compensation.

#### Depreciation and Accretion Expense

|                                    | Three Months Ended September 30, |           |             | Nine Months Ended September 30, |           |             |
|------------------------------------|----------------------------------|-----------|-------------|---------------------------------|-----------|-------------|
|                                    | 2012<br>(In thousands)           | 2011      | %<br>Change | 2012<br>(In thousands)          | 2011      | %<br>Change |
| Depreciation expense               | \$ 15,106                        | \$ 11,629 | 29.9 %      | \$ 42,341                       | \$ 33,344 | 27.0 %      |
| Accretion expense                  | 652                              | 568       | 14.8 %      | 1,902                           | 1,660     | 14.6 %      |
| Depreciation and accretion expense | \$ 15,758                        | \$ 12,197 | 29.2 %      | \$ 44,243                       | \$ 35,004 | 26.4 %      |

#### Percentage of total revenues:

|                                    |     |   |     |   |     |   |     |   |
|------------------------------------|-----|---|-----|---|-----|---|-----|---|
| Depreciation expense               | 7.6 | % | 7.0 | % | 7.3 | % | 7.4 | % |
| Accretion expense                  | 0.3 | % | 0.3 | % | 0.3 | % | 0.4 | % |
| Depreciation and accretion expense | 7.9 | % | 7.4 | % | 7.6 | % | 7.8 | % |

For the three and nine months ended September 30, 2012, depreciation expense increased when compared to the same periods in 2011 primarily as a result of the deployment of additional Company-owned ATMs over the past year, to facilitate our organic ATM unit growth, which grew 12% and 10% in the three and nine months ended September 30, 2012, respectively. Additionally, our depreciation expense has increased as a result of new ATMs purchased to replace older non-ADA-compliant ATMs, and as a result of the acquisition of businesses completed during the last year. Accretion expense also increased as additional asset retirement obligations were set up in connection with the newly-deployed ATMs. When we install our ATMs, we estimate the fair value of future retirement obligations associated with those ATMs, including the anticipated costs to deinstall, and in some cases refurbish, the ATMs at certain merchant locations. Accretion expense represents the increase of this liability from the original discounted net present value to the amount we ultimately expect to incur.

#### Amortization Expense

|  | Three Months Ended September 30, |      |             | Nine Months Ended September 30, |      |             |
|--|----------------------------------|------|-------------|---------------------------------|------|-------------|
|  | 2012<br>(In thousands)           | 2011 | %<br>Change | 2012<br>(In thousands)          | 2011 | %<br>Change |

Edgar Filing: CARDTRONICS INC - Form 10-Q

|                              |          |          |        |           |           |        |
|------------------------------|----------|----------|--------|-----------|-----------|--------|
| Amortization expense         | \$ 5,565 | \$ 4,946 | 12.5 % | \$ 16,452 | \$ 12,240 | 34.4 % |
| Percentage of total revenues | 2.8 %    | 3.0 %    |        | 2.8 %     | 2.7 %     |        |

Amortization expense is primarily comprised of the amortization of intangible assets related to merchant contracts and relationships associated with our acquisitions. The increase in amortization during the three and nine months ended September 30, 2012 as compared to the same periods in 2011 was primarily due to the addition of \$64.7 million in intangible assets from the acquisitions completed during 2011 and 2012.

(Gain) Loss on Disposal of Assets

|                                   | Three Months Ended<br>September 30, |                        |          | Nine Months Ended<br>September 30, |                        |             |
|-----------------------------------|-------------------------------------|------------------------|----------|------------------------------------|------------------------|-------------|
|                                   | 2012<br>(In thousands)              | 2011<br>(In thousands) | % Change | 2012<br>(In thousands)             | 2011<br>(In thousands) | %<br>Change |
| (Gain) Loss on disposal of assets | \$ (28)                             | \$ 117                 | (123.9)% | \$ 784                             | \$ 280                 | 180.0 %     |
| Percentage of total revenues      | — %                                 | 0.1 %                  |          | 0.1 %                              | 0.1 %                  |             |

We recognized a net gain on disposal of assets during the three months ended September 30, 2012, compared to a small net loss in the comparable period of 2011. The loss on disposal of assets during the nine months ended September 30, 2012 as compared to the same period in 2011 increased, mostly as a result of an increase in the number of assets that we removed during the first half of 2012, related to obsolescence including replacing non-ADA-compliant ATMs in the U.S.

## Interest Expense, Net

|  | Three Months Ended September 30, |          |             | Nine Months Ended September 30, |           |             |
|--|----------------------------------|----------|-------------|---------------------------------|-----------|-------------|
|  | 2012<br>(In thousands)           | 2011     | %<br>Change | 2012<br>(In thousands)          | 2011      | %<br>Change |
| Interest expense, net                    | \$ 5,269                         | \$ 5,243 | 0.5 %       | \$ 15,966                       | \$ 14,810 | 7.8 %       |
| Amortization of deferred financing costs | 225                              | 351      | (35.9)%     | 669                             | 775       | (13.7)%     |
| Total interest expense, net              | \$ 5,494                         | \$ 5,594 | (1.8) %     | \$ 16,635                       | \$ 15,585 | 6.7 %       |
| Percentage of total revenues             | 2.8 %                            | 3.4 %    |             | 2.9 %                           | 3.5 %     |             |

Interest expense, net. Interest expense, net, increased during the three and nine months ended September 30, 2012, when compared to the same periods in 2011, due to borrowings under our revolving credit facility to fund the acquisitions made during the last twelve months, which resulted in a year-over-year increase in debt outstanding. For additional details, see Item 1. Financial Information, Note 9, Long-Term Debt.

Amortization of deferred financing costs. Amortization of deferred financing costs during the three and nine months ended September 30, 2012 decreased compared to the same periods in 2011, due to the write off of certain deferred financing costs as a result of the modification of our \$250.0 million revolving credit facility in July 2011. In addition to the costs associated with the revolving credit facility, the amortization relates to the costs associated with the issuance of \$200.0 million 8.25% senior subordinated notes due 2018 (the "2018 Notes") and these costs are being amortized over the underlying term of the respective agreements.

## Income Tax Expense (Benefit)

|                              | Three Months Ended September 30, |             |             | Nine Months Ended September 30, |             |             |
|------------------------------|----------------------------------|-------------|-------------|---------------------------------|-------------|-------------|
|                              | 2012<br>(In thousands)           | 2011        | %<br>Change | 2012<br>(In thousands)          | 2011        | %<br>Change |
| Income tax expense (benefit) | \$ 8,169                         | \$ (29,869) | (127.3)%    | \$ 20,684                       | \$ (17,765) | (216.4)%    |
| Effective tax rate           | 39.1 %                           | (176.4) %   |             | 39.0 %                          | (40.1) %    |             |

Our income tax expense during the three and nine months ended September 30, 2012 increased significantly over the same periods in 2011, primarily as a result of tax restructuring with respect to our U.K. operations during the third quarter of 2011, which resulted in recording a non-recurring \$37.0 million tax benefit in that period. For additional details regarding the tax restructuring in the U.K., see Note 18, Income Taxes in our 2011 Form 10-K.

## Non-GAAP Financial Measures

Included below are certain non-GAAP financial measures that we use to evaluate the performance of our business. We believe that the presentation of these measures and the identification of unusual or certain non-recurring adjustments and non-cash items enhance an investor's understanding of the underlying trends in our business and provide for better comparability between periods in different years. EBITDA, Adjusted EBITDA, Adjusted Net Income, and Free Cash Flow are non-GAAP financial measures provided as a complement to results prepared in accordance with U.S. GAAP and may not be comparable to similarly-titled measures reported by other companies.

Adjusted EBITDA excludes depreciation, accretion, and amortization expense as these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures, and the method by which the assets were acquired. EBITDA and Adjusted EBITDA also do not reflect acquisition-related costs and our obligations for the payment of income taxes, interest expense, loss on disposal of assets, certain non-operating items or other obligations such as capital expenditures. Free Cash Flow is defined as cash provided by operating activities less payments for capital expenditures, including those financed through direct debt but excluding acquisitions. The measure of Free Cash Flow does not take into consideration certain other non-discretionary cash requirements such as, for example, mandatory principal payments on portions of our long-term debt. The non-GAAP financial measures presented herein should not be considered in isolation or as a substitute for operating income, net income, cash flows from operating, investing, or financing activities, or other income or cash flow statement data prepared in accordance with U.S. GAAP.

A reconciliation of EBITDA, Adjusted EBITDA and Adjusted Net Income to Net Income Attributable to Controlling Interests, their most comparable U.S. GAAP financial measure, and a reconciliation of Free Cash Flow to cash provided by operating activities, the most comparable U.S. GAAP financial measure, are presented as follows:

Edgar Filing: CARDTRONICS INC - Form 10-Q

Reconciliation of Net Income Attributable to Controlling Interests to EBITDA, Adjusted EBITDA and Adjusted Net Income

|   | Three Months Ended<br>September 30,                |            | Nine Months Ended<br>September 30, |            |
|---|--|------------|------------------------------------|------------|
|   | 2012   | 2011       | 2012                               | 2011       |
|   | (In thousands, except share and per share amounts) |            |                                    |            |
| Net income attributable to controlling interests  | \$ 12,897  | \$ 46,885  | \$ 32,390                          | \$ 62,080  |
| Adjustments:                                      |  |            |                                    |            |
| Interest expense, net                             | 5,269  | 5,243      | 15,966                             | 14,810     |
| Amortization of deferred financing costs          | 225  | 351        | 669                                | 775        |
| Income tax expense (benefit)                      | 8,169  | (29,869)   | 20,684                             | (17,765)   |
| Depreciation and accretion expense                | 15,758   | 12,197     | 44,243                             | 35,004     |
| Amortization expense                              | 5,565  | 4,946      | 16,452                             | 12,240     |
| EBITDA  | \$ 47,883  | \$ 39,753  | \$ 130,404                         | \$ 107,144 |
| Add back:   |  |            |                                    |            |
| (Gain) loss on disposal of assets <sup>(1)</sup>  | (28)   | 117        | 784                                | 280        |
| Other (income) expense <sup>(2)</sup>             | (1,040)  | 328        | (1,098)                            | 221        |
| Noncontrolling interests <sup>(3)</sup>           | (355)  | (471)      | (1,217)                            | (1,466)    |
| Stock-based compensation expense <sup>(4)</sup>   | 2,675  | 2,363      | 8,664                              | 6,968      |
| Acquisition-related costs <sup>(5)</sup>          | 381  | 956        | 1,858                              | 1,299      |
| Adjusted EBITDA                                   | \$ 49,516  | \$ 43,046  | \$ 139,395                         | \$ 114,446 |
| Less:   |  |            |                                    |            |
| Interest expense, net <sup>(4)</sup>              | 5,231  | 5,163      | 15,829                             | 14,528     |
| Depreciation and accretion expense <sup>(4)</sup> | 15,372   | 11,818     | 43,126                             | 33,852     |
| Adjusted pre-tax income                           | 28,913   | 26,065     | 80,440                             | 66,066     |
| Income tax expense (at 35%) <sup>(6)</sup>        | 10,120   | 9,123      | 28,154                             | 23,123     |
| Adjusted Net Income                               | \$ 18,793  | \$ 16,942  | \$ 52,286                          | \$ 42,943  |
| Adjusted Net Income per share                     | \$ 0.43  | \$ 0.40    | \$ 1.21                            | \$ 1.02    |
| Adjusted Net Income per diluted share             | \$ 0.43  | \$ 0.39    | \$ 1.19                            | \$ 1.01    |
| Weighted average shares outstanding - basic       | 43,669,756   | 42,570,137 | 43,333,407                         | 42,001,624 |
| Weighted average shares outstanding - diluted     | 44,045,021   | 43,195,554 | 43,783,534                         | 42,727,446 |

(1) Primarily comprised of losses on the disposal of fixed assets that were incurred with the deinstallation of ATMs during the periods.

(2) Amounts exclude unrealized and realized (gains) losses related to derivatives not designated as hedging instruments.

(3) Noncontrolling interests adjustment made such that Adjusted EBITDA includes only our 51% ownership interest in the Adjusted EBITDA of our Mexico subsidiary.

(4) Amounts exclude 49% of the expenses incurred by our Mexico subsidiary as such amounts are allocable to the noncontrolling interest stockholders.

(5) Acquisition-related costs include non-recurring costs incurred for professional and legal fees and certain transition and integration-related costs, related to recent acquisitions.

(6) 35% represents our estimated long-term, cross-jurisdictional effective cash tax rate.





## Calculation of Free Cash Flow

|   | Three Months Ended    |           | Nine Months Ended     |           |
|---|-----------------------|-----------|-----------------------|-----------|
|   | September 30,<br>2012 | 2011      | September 30,<br>2012 | 2011      |
|   | (In thousands)        |           |                       |           |
| Cash provided by operating activities                     | \$ 38,404             | \$ 38,313 | \$ 94,325             | \$ 69,352 |
| Payments for capital expenditures:                        |                       |           |                       |           |
| Cash used in investing activities, excluding acquisitions | (25,376)              | (11,663)  | (80,592)              | (37,060)  |
| Free cash flow  | \$ 13,028             | \$ 26,650 | \$ 13,733             | \$ 32,292 |

## Liquidity and Capital Resources

## Overview

As of September 30, 2012, we had \$11.1 million in cash and cash equivalents on hand and \$380.9 million in outstanding long-term debt.

We have historically funded our operations primarily through cash flows from operations, borrowings under our revolving credit facilities, and the issuance of debt and equity securities. Furthermore, we have historically used cash to invest in additional ATMs, either through the acquisition of ATM networks or through organically-generated growth. We have also used cash to fund increases in working capital and to pay interest and principal amounts outstanding under our borrowings. Because we collect a sizable portion of our cash from sales on a daily basis but generally pay our vendors on 30-day terms and are not required to pay certain of our merchants until 20 days after the end of each calendar month, we are able to utilize the excess available cash flow to reduce borrowings made under our revolving credit facility and to fund our ongoing capital expenditure program. Accordingly, we will typically reflect a working capital deficit position and carry a small cash balance on our books.

We believe that our cash on hand and our current bank credit facilities will be sufficient to meet our working capital requirements and contractual commitments for the next 12 months. We expect to fund our working capital needs from revenues generated from our operations and borrowings under our revolving credit facility, to the extent needed. As we expect to continue to generate positive free cash flows in the remainder of 2012 and beyond, we expect to continue repaying the amounts outstanding under our revolving credit facility. See additional discussion under Financing Facilities below.

## Operating Activities

Net cash provided by operating activities totaled \$94.3 million for the nine months ended September 30, 2012 compared to net cash provided by operating activities of \$69.4 million during the same period in 2011. The year-over-year increase was primarily attributable to the generation of higher operating profits and smaller net increases in certain working capital balances relative to the prior year period.

## Investing Activities

Net cash used in investing activities totaled \$98.5 million for the nine months ended September 30, 2012, compared to \$180.7 million during the same period in 2011. The year-over-year decrease was primarily the result of \$145.0 million paid for the EDC acquisition during the third quarter of 2011.

**Anticipated Future Capital Expenditures.** We currently anticipate that the majority of our capital expenditures for the foreseeable future will be driven by organic growth projects, including the purchase of ATMs for existing as well as new ATM management agreements. We expect that our capital expenditures for the remainder of 2012 will total approximately \$4.4 million, the majority of which will be utilized to purchase additional ATMs for our Company-owned accounts and enhance our existing devices with additional functionalities. We expect such expenditures to be funded with cash generated from our operations. In addition, we will continue to evaluate selected acquisition opportunities that complement our existing ATM network. We believe that significant expansion opportunities continue to exist in all of our current markets, as well as in other international markets, and we will continue to pursue those opportunities as they arise. Such acquisition opportunities, either individually or in the aggregate, could be material and may be funded by additional borrowings.

## Financing Activities

Net cash provided by financing activities totaled \$10.0 million and \$113.4 million for the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012, our capital expenditures totaled approximately \$80.6 million, which consumed the majority of our cash generated from operating activities, and as a result, we neither borrowed nor repaid a substantial amount of indebtedness during the period. During the nine months ended September 30, 2011, we borrowed \$145.0 million under our amended revolving credit facility to fund the EDC acquisition, which was partially offset by repayments on our

outstanding long-term debt during the period and the receipt of approximately \$10.1 million from the proceeds from exercises of stock options.

## Financing Facilities

As of September 30, 2012, we had approximately \$380.9 million in outstanding long-term debt, which was primarily comprised of: (1) \$200.0 million of 2018 Notes, (2) \$177.5 million in borrowings under our revolving credit facility, and (3) \$3.3 million in notes payable outstanding under equipment financing lines of Cardtronics Mexico.

**Revolving Credit Facility.** As of September 30, 2012, we had a \$250.0 million revolving credit facility that was led by a syndicate of banks including JPMorgan Chase, N.A. and Bank of America, N.A. This facility, which was entered into on July 15, 2010 and amended on July 25, 2011, provides us with \$250.0 million in available borrowings and letters of credit (subject to the covenants contained within the facility) and has an expiration date of July 2016. The facility contains the ability to further increase the borrowing capacity to \$325.0 million, subject to the availability of additional bank commitments by existing or new syndicate participants and other conditions.

Borrowings under our revolving credit facility bear interest at a variable rate based upon our total leverage ratio and the London Interbank Offered Rate (“LIBOR”) or Alternative Base Rate (as defined in the agreement) at our option. Additionally, we are required to pay a commitment fee on the unused portion of the revolving credit facility. Substantially all of our assets, including the stock of all of our wholly-owned domestic subsidiaries and 66% of the stock of our foreign subsidiaries, are pledged to secure borrowings made under the revolving credit facility. Furthermore, each of our domestic subsidiaries has guaranteed our obligations under such facility. There are currently no restrictions on the ability of our wholly-owned subsidiaries to declare and pay dividends directly to us. The primary restrictive covenants within the facility include (1) limitations on the amount of senior debt and total debt that we can have outstanding at any given point in time and (2) the maintenance of a set ratio of earnings to fixed charges, as computed quarterly on a trailing 12-month basis. Additionally, we are limited on the amount of restricted payments, including dividends, which we can make pursuant to the terms of the facility. Under the amended credit agreement, these limitations are generally governed by a senior leverage ratio test and a fixed charge ratio covenant.

As of September 30, 2012, the weighted average interest rate on our outstanding revolving credit facility borrowings was approximately 2.4%. Additionally, as of September 30, 2012, we were in compliance with all the covenants contained within the facility and would continue to be in compliance even in the event of substantially higher borrowings or substantially lower earnings. As of September 30, 2012, we had \$70.4 million in available borrowing capacity under the \$250.0 million revolving credit facility.

**Senior Subordinated Notes.** In August 2010, we issued \$200.0 million in 2018 Notes. The 2018 Notes are subordinate to borrowings made under the revolving credit facility and carry an 8.25% coupon. Interest is paid semi-annually in arrears on March 1st and September 1st of each year. The 2018 Notes, which are guaranteed by all of our 100% owned domestic subsidiaries, contain no maintenance covenants and only limited incurrence covenants, under which

we have considerable flexibility. Pursuant to the terms of the indenture, we are limited on the amount of restricted payments including dividends that we can make. These limitations are generally governed by a fixed charge ratio incurrence test and an overall restricted payments basket.

As of September 30, 2012, we were in compliance with all applicable covenants required under the 2018 Notes.

#### Other Borrowing Facilities

- Bank Machine overdraft facility. Bank Machine has a £1.0 million overdraft facility. This overdraft facility, which bears interest at 1.0% over the Bank of England's base rate (0.5% as of September 30, 2012) and is secured by a letter of credit posted under our revolving credit facility, is utilized for general corporate purposes for our U.K. operations. As of September 30, 2012, there were no amounts outstanding under this overdraft facility. The letter of credit we have posted that is associated with this overdraft facility reduces the available borrowing capacity under our corporate revolving credit facility discussed above.
- Cardtronics Mexico equipment financing agreements. Between 2007 and 2010, Cardtronics Mexico entered into several separate five-year equipment financing agreements with a single lender, of which six agreements have remaining balances as of September 30, 2012. These agreements, which are denominated in pesos and bear interest at an average fixed rate of 10.10%, were utilized for the purchase of ATMs to support the growth in our Mexico operations. As of September 30, 2012, approximately \$42.8 million pesos (\$3.3 million U.S.) were outstanding under the agreements, with any future borrowings to be individually negotiated between the lender and Cardtronics Mexico. Pursuant to the terms of the loan agreements, we have issued guarantees for 51.0% of the obligations under these agreements (consistent with our ownership percentage in Cardtronics Mexico). As of September 30, 2012, the total amount of these guarantees was \$21.8 million pesos (\$1.7 million U.S.).

## New Accounting Standards

For a description of the accounting standards that we adopted during 2012, see Part I. Financial Information, Item 1. Notes to Consolidated Financial Statements, Note 17, New Accounting Pronouncements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following market risk disclosures should be read in conjunction with the quantitative and qualitative disclosures about market risk contained in the 2011 Form 10-K.

We are exposed to a variety of market risks, including interest rate risk and foreign currency exchange rate risk. The following quantitative and qualitative information is provided about financial instruments to which we were a party at September 30, 2012, and from which we may incur future gains or losses from changes in market interest rates or foreign currency exchange prices. We do not enter into derivative or other financial instruments for speculative or trading purposes.

Hypothetical changes in interest rates and foreign currencies chosen for the following estimated sensitivity analysis are considered to be reasonably possible near-term changes generally based on consideration of past fluctuations for each risk category. However, since it is not possible to accurately predict future changes in interest rates and foreign currencies, these hypothetical changes may not necessarily be an indicator of probable future fluctuations.

### Interest Rate Risk

Vault cash rental expense. Because our ATM vault cash rental expense is based on market rates of interest, it is sensitive to changes in the general level of interest rates in the U.S., the U.K., Mexico, and Canada. In the U.S. and the U.K., we pay a monthly fee to our vault cash providers on the average amount of vault cash outstanding under a formula based on the U.S. and U.K. LIBOR rates, respectively. In Mexico, we pay a monthly fee to our vault cash provider under a formula based on the Interbank Equilibrium Interest Rate (commonly referred to as the "TIIE"). In Canada, we pay interest to our vault cash providers based on the average amount of vault cash outstanding under a formula based on the Bank of Canada's bankers' acceptance rate.

As a result of the significant sensitivity surrounding the vault cash rental expense for our U.S. and U.K. operations, we have entered into a number of interest rate swaps to effectively fix the rate we pay on the amounts of our current and anticipated outstanding vault cash balances. The following swaps currently in place serve to fix the rate utilized for our vault cash rental agreements in the U.S. and the U.K. for the following notional amounts and periods:

| Notional<br>Amounts<br>U.S. | Notional<br>Amounts<br>U.K. | Notional<br>Amounts<br>Consolidated<br>(1) | Weighted<br>Average<br>Fixed<br>Rate | Term                                |
|-----------------------------|-----------------------------|--|--------------------------------------|-------------------------------------|
| (in thousands)              |                             |  |                                      |                                     |
| \$ 750,000                  | £ 50,000                    | \$ 830,820                                 | 3.45 %                               | October 1, 2012 – December 31, 2012 |
| \$ 1,000,000                | £ 25,000                    | \$ 1,040,410                               | 2.69 %                               | January 1, 2013 – December 31, 2013 |
| \$ 1,250,000                | £ —                         | \$ 1,250,000                               | 2.98 %                               | January 1, 2014 – December 31, 2014 |
| \$ 1,300,000                | £ —                         | \$ 1,300,000                               | 2.84 %                               | January 1, 2015 – December 31, 2015 |
| \$ 1,300,000                | £ —                         | \$ 1,300,000                               | 2.74 %                               | January 1, 2016 – December 31, 2016 |
| \$ 1,000,000                | £ —                         | \$ 1,000,000                               | 2.53 %                               | January 1, 2017 – December 31, 2017 |
| \$ 750,000                  | £ —                         | \$ 750,000                                 | 2.54 %                               | January 1, 2018 – December 31, 2018 |

(1) U.K. pound sterling amounts have been converted into U.S. dollars at approximately \$1.62 to £1.00, which was the exchange rate in effect as of September 30, 2012.

Edgar Filing: CARDTRONICS INC - Form 10-Q

The following table presents a hypothetical sensitivity analysis of our annual vault cash rental expense based on our outstanding vault cash balances as of September 30, 2012 and assuming a 100 basis point increase in interest rates:

|                | Vault Cash Balance       |                | Additional Interest Incurred on 100 Basis Point Increase (Excluding Impact of Interest Rate Swaps) |                | Additional Interest Incurred on 100 Basis Point Increase (Including Impact of All Interest Rate Swaps Currently under Contract) |                |
|----------------|--------------------------|----------------|--|----------------|---|----------------|
|                | as of September 30, 2012 |                | of Interest Rate Swaps)  |                | under Contract)   |                |
|                | (Functional              | (Functional    | (Functional  | (Functional    | (Functional   | (Functional    |
|                | currency)                | (U.S. dollars) | currency)  | (U.S. dollars) | currency)   | (U.S. dollars) |
|                | (In millions)            | (In millions)  | (In millions)  | (In millions)  | (In millions)   | (In millions)  |
| United States  | \$ 1,664.1               | \$ 1,664.1     | \$ 16.6  | \$ 16.6        | \$ 9.1  | \$ 9.1         |
| United Kingdom | £ 224.6                  | 363.0          | £ 2.2  | 3.6            | £ 1.7   | 2.8            |
| Mexico         | p\$ 188.9                | 14.7           | p\$ 1.9  | 0.1            | p\$ 1.9   | 0.1            |
| Canada         | c\$ 56.3                 | 57.2           | c\$ 0.6  | 0.6            | c\$ 0.6   | 0.6            |
| Total          |                          | \$ 2,099.0     |  | \$ 20.9        |   | \$ 12.6        |

Starting in 2013 and continuing for several years thereafter, our expected exposure to changes in interest rates on our outstanding vault cash balances is expected to be somewhat lower than is presented in the table above. This expected reduction in exposure to floating interest rates is primarily the result of forward-starting swaps, which increase our overall hedged position by \$250.0 million in 2013 and an additional \$250.0 million in 2014 on our vault cash balances outstanding in the U.S. These incremental swaps are partially offset by reductions in outstanding interest rate swap agreements related to the vault cash in our U.K. operations during the same time period. We expect some growth in outstanding vault cash balances as a result of expected future business growth, and we will continue to seek ways to mitigate our exposure to floating interest rates by engaging in additional interest rate swaps.

As of September 30, 2012, we had a net liability of \$117.3 million recorded on our Consolidated Balance Sheet related to our interest rate swaps, which represented the fair value liability of the agreements, as derivative instruments are required to be carried at fair value. Fair value was calculated as the present value of amounts estimated to be received or paid to a marketplace participant in a selling transaction. These swaps are valued using pricing models based on significant other observable inputs (Level 2 inputs under the fair value hierarchy established by U.S. GAAP), while taking into account the nonperformance risk of the party that is in the liability position with respect to each trade. The vast majority of these swaps are accounted for as cash flow hedges; accordingly, changes in the fair values of the swaps have been reported in accumulated other comprehensive loss in the accompanying Consolidated Balance Sheets. Certain interest rate swaps in the U.K. are not accounted for as cash flow hedges. Accordingly, changes in the fair values of such swaps are recorded in other expense (income) in the accompanying Consolidated Statements of Operations. However, due to certain offsetting interest rate swap transactions that were entered into in December 2009, changes in the values of these swaps have not had, and are not expected to have, a significant impact on our ongoing results of operations. Due to our determination that net deferred tax assets are realizable in the future, we record the unrealized loss amounts related to our interest rate swaps net of estimated taxes in the Accumulated other comprehensive loss, net line item within Stockholders' equity in the accompanying Consolidated Balance Sheets.



As of September 30, 2012, we had not entered into any derivative financial instruments to hedge our variable interest rate exposure in Mexico or Canada, as we do not deem it to be cost effective to engage in such a hedging program. However, we may enter into derivative financial instruments in the future to hedge our interest rate exposure in those markets.

Interest expense. Our interest expense is also sensitive to changes in interest rates in the U.S., as borrowings under our revolving credit facility accrue interest at floating rates. Based on the \$177.5 million outstanding under the facility as of September 30, 2012, an increase of 100 basis points in the underlying interest rate would have had a \$1.3 million impact on our interest expense in the nine months then ended. However, there is no guarantee that we will not borrow additional amounts under the facility in the future, and, in the event we borrow amounts and interest rates significantly increase, the interest that we would be required to pay would be more significant.

Outlook. If we continue to experience low short-term interest rates in the U.S. and the U.K., it will serve to be beneficial to the amount of interest expense we incur under our bank credit facilities and our vault cash rental expense. Although we currently hedge a substantial portion of our vault cash interest rate risk, as noted above, we may not be able to enter into similar arrangements for similar amounts in the future, and any significant increase in interest rates in the future could have an adverse impact on our business, financial condition and results of operations by increasing our operating costs and expenses. However, the impact on our financial statements from a significant increase in interest rates would be partially mitigated by the interest rate swaps that we currently have in place associated with our vault cash balances in the U.S. and the U.K.

#### Foreign Currency Exchange Rate Risk

As a result of our operations in the U.K., Mexico, and Canada, we are exposed to market risk from changes in foreign currency exchange rates, specifically with respect to changes in the U.S. dollar relative to the British pound, Mexican peso, and the Canadian dollar. All of our international subsidiaries are consolidated into our financial results and are subject to risks typical of international businesses including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other

regulations and restrictions, and foreign exchange rate volatility. Furthermore, we are required to translate the financial condition and results of our international operations into U.S. dollars, with any corresponding translation gains or losses being recorded in other comprehensive income (loss) in our consolidated financial statements. As of September 30, 2012, this accumulated translation loss totaled approximately \$24.4 million compared to approximately \$27.1 million as of December 31, 2011.

Our consolidated financial results were positively impacted by an increase in the value of the British pound relative to the U.S. dollar during the three and nine months ended September 30, 2012. However, our consolidated financial results were negatively impacted by changes in the value of the Mexican peso relative to the U.S. dollar for the three and nine months ended September 30, 2012 compared to the prior year period. A sensitivity analysis indicates that, if the U.S. dollar uniformly strengthened or weakened 10% against the British pound, the effect upon our U.K. operations' operating income for the nine months ended September 30, 2012 would have been approximately \$0.3 million. Similarly, a sensitivity analysis indicates that if the U.S. dollar uniformly strengthened or weakened 10% against the Mexican peso or the Canadian dollar for the nine months ended September 30, 2012, the effect upon the respective subsidiary's operating income would have been immaterial. At this time, we have not deemed it to be cost effective to engage in a program of hedging the effect of foreign currency fluctuations on our operating results using derivative financial instruments.

Certain intercompany balances between our U.S. parent company and our U.K. operations are designated as short-term in nature, and the changes in these balances are translated in our Consolidated Statements of Operations. As a result, we are exposed to foreign currency exchange risk as it relates to these intercompany balances. As of September 30, 2012, the intercompany payable balance from our U.K. operations to our U.S. parent company totaled \$47.3 million, of which \$9.3 million was deemed to be short-term in nature. A sensitivity analysis indicates that, if the U.S. dollar uniformly strengthened or weakened 10% against the British pound, based on the intercompany payable balance as of September 30, 2012, the effect upon our Consolidated Statements of Operations would be approximately \$0.9 million.

We do not hold derivative commodity instruments, and all of our cash and cash equivalents are held in money market and checking funds.

#### Item 4. Controls and Procedures

##### Management's Quarterly Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that information required

to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2012 at the reasonable assurance level.

#### Changes in Internal Control over Financial Reporting

There have been no changes in our system of internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

50

---

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

For a description of our material pending legal and regulatory proceedings and settlements, see Part I. Financial Information, Item 1. Notes to Consolidated Financial Statements, Note 14, Commitments and Contingencies.

## Item 1A. Risk Factors

The known material risks we face are described in our 2011 Form 10-K under Part I, Item 1A, Risk Factors. There have been no material changes in our risk factors since that report.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended September 30, 2012:

| Period                 | Total Number<br>of Shares<br>Purchased <sup>(1)</sup> | Average<br>Price<br>Paid Per<br>Share <sup>(2)</sup> | Total<br>Number of<br>Shares<br>Purchased<br>as Part of a<br>Publicly<br>Announced<br>Plan or<br>Program | Approximate<br>Dollar Value<br>that may Yet<br>be<br>Purchased<br>Under the<br>Plan or<br>Program <sup>(3)</sup> |
|------------------------|---|--|--|--|
| July 1 – 31, 2012      | 1,221   | 30.64  | —  | \$ —   |
| August 1 – 31, 2012    | 662   | 30.46  | —  | \$ —   |
| September 1 – 30, 2012 | 331   | 29.58  | —  | \$ —   |

<sup>(1)</sup> Represents shares surrendered to us by participants in our 2007 Stock Incentive Plan to settle the participants' personal tax liabilities that resulted from the lapsing of restrictions on shares awarded to the participants under the

Plan.

- (2) The price paid per share was based on the average high and low trading prices of our common stock on July 1, 2012, August 1, 2012, and September 26, 2012, which represents the dates on which we repurchased shares from the participants under our 2007 Stock Incentive Plan.
- (3) In connection with the lapsing of the forfeiture restrictions on restricted shares granted by us under our 2007 Stock Incentive Plan, which was adopted in December 2007 and expires in December 2017, we permitted employees and directors to sell a portion of their shares to us in order to satisfy their tax liabilities that arose as a consequence of the lapsing of the forfeiture restrictions. In future periods, we may not permit individuals to sell their shares to us in order to satisfy such tax liabilities. Since the number of restricted shares that will become unrestricted each year is dependent upon the continued employment of the award recipients, we cannot forecast either the total amount of such securities or the approximate dollar value of those securities that we might purchase in future years as the forfeiture restrictions on such shares lapse.

#### Item 6. Exhibits

The exhibits required to be filed or furnished pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Index to Exhibits accompanying this Form 10-Q.

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.

CARDTRONICS, INC.

November 1, 2012 /s/ J. Chris Brewster  
J. Chris Brewster  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

November 1, 2012 /s/ E. Brad Conrad  
E. Brad Conrad  
Chief Accounting Officer  
(Duly Authorized Officer and  
Principal Accounting Officer)

INDEX TO EXHIBITS

Each exhibit identified below is part of this Form 10-Q.

| Exhibit<br>Number | Description   |
|-------------------|---|
| 3.1               | Third Amended and Restated Certificate of Incorporation of Cardtronics, Inc. (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Cardtronics, Inc. on December 14, 2007, File No. 001-33864). |
| 3.2               | Third Amended and Restated Bylaws of Cardtronics, Inc. (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Cardtronics, Inc. on January 25, 2011, File No. 001-33864).                       |
| 31.1*             | Certification of the Chief Executive Officer of Cardtronics, Inc. pursuant to Section 13a-14(a) of the Securities Exchange Act of 1934.   |
| 31.2*             | Certification of the Chief Financial Officer of Cardtronics, Inc. pursuant to Section 13a-14(a) of the Securities Exchange Act of 1934.   |
| 32.1**            | Certification of the Chief Executive Officer and Chief Financial Officer of Cardtronics, Inc. pursuant to Section 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.  |
| 101.INS***        | XBRL Instance Document  |
| 101.SCH***        | XBRL Taxonomy Extension Schema Document   |
| 101.CAL***        | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB***        | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE***        | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF***        | XBRL Taxonomy Extension Definition Linkbase Document  |

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Exchange Act of 1934 and are otherwise not subject to liability under those sections.