

HEARTLAND PAYMENT SYSTEMS INC
Form 10-Q
November 14, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 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, 2005

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 No. 000-51265

HEARTLAND PAYMENT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3755714
(I.R.S. Employer
Identification Number)

90 Nassau Street, Princeton, New Jersey 08542
(Address of principal executive offices) (Zip Code)

(609) 683-3831
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

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to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 3, 2005, there were 34,159,843 shares of the registrant's Common Stock, \$.001 par value, outstanding.

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PART I CONDENSED FINANCIAL INFORMATION

Item 1. Financial Statements

Heartland Payment Systems, Inc. and Subsidiary**Consolidated Balance Sheets***(In thousands, except share data)*

(unaudited)

	September 30, 2005	December 31, 2004 (As Restated See Note 16)
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,234	\$ 13,237
Receivables	74,352	64,325
Investments	1,332	1,100
Inventory	1,480	818
Prepaid expenses	3,371	2,151
Current deferred tax assets, net	1,483	2,129
Total current assets	129,252	83,760
Capitalized customer acquisition costs, net	40,530	34,247
Deferred tax assets, net	4,267	4,651
Property and equipment, net	16,209	10,944
Deposits and other assets	211	324
Total assets	\$ 190,469	\$ 133,926
Liabilities and stockholders equity		
Current liabilities:		
Due to sponsor bank	\$ 49,245	\$ 45,153
Accounts payable	24,596	27,103
Current portion of accrued buyout liability	9,663	9,327
Merchant deposits and loss reserves	8,366	7,175
Accrued expenses and other	7,995	6,701
Current portion of borrowings and financing arrangements	272	5,286
Total current liabilities	100,137	100,745
Long-term portion of borrowings and financing arrangements	224	7,808
Warrants with mandatory redemption provisions		1,566
Long-term portion of accrued buyout liability	17,790	17,708
Total liabilities	118,151	127,827
Stockholders equity		
Series A Senior Convertible Participating Preferred Stock, \$80 million liquidation preference, \$.001 par value, 10,000,000 shares authorized, 7,619,048 shares issued and outstanding at December 31, 2004		8
Common Stock, \$.001 par value, 100,000,000 shares authorized, 34,144,571 and 16,437,760 issued and outstanding at September 30, 2005 and December 31, 2004,	33	8

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respectively

Additional paid-in capital	93,668	41,065
Accumulated other comprehensive loss	(22)	(10)
Accumulated deficit	(21,361)	(34,972)
Total stockholders' equity	72,318	6,099
Total liabilities and stockholders' equity	\$ 190,469	\$ 133,926

See accompanying notes to consolidated financial statements.

Heartland Payment Systems, Inc. and Subsidiary

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Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenue:				
Gross processing revenue	\$ 224,816	\$ 163,130	\$ 597,717	\$ 430,025
Other revenue, net	3,276	1,536	9,932	5,142
Total revenue	228,092	164,666	607,649	435,167
Costs of Services:				
Interchange	168,550	120,653	444,100	316,099
Dues and assessments	8,624	6,397	22,938	16,931
Processing and servicing	22,567	18,337	64,920	49,953
Customer acquisition costs	7,037	5,038	20,278	14,500
Depreciation and amortization	1,447	1,000	4,056	2,869
Total costs of services	208,225	151,425	556,292	400,352
Selling and administrative	10,169	8,294	28,448	22,954
Total expenses	218,394	159,719	584,740	423,306
Income from operations	9,698	4,947	22,909	11,861
Other income (expense):				
Interest income	239	50	422	130
Interest expense	(418)	(352)	(1,391)	(965)
Fair value adjustment for warrants with mandatory redemption provisions	(2,620)	(298)	(2,912)	(509)
Gain on settlement of financing arrangement	5,140		5,140	
Other, net	4		11	833
Total other income (expense)	2,345	(600)	1,270	(511)
Income before income taxes	12,043	4,347	24,179	11,350
Provision for income taxes	5,507	1,817	10,568	4,753
Net income	6,536	2,530	13,611	6,597
Income allocated to Series A Senior Convertible Preferred Stock				
	1,326	1,218	4,728	3,179
Net income attributable to Common Stock	\$ 5,210	\$ 1,312	\$ 8,883	\$ 3,418
Net income	\$ 6,536	\$ 2,530	\$ 13,611	\$ 6,597
Other comprehensive income, net of tax:				
Unrealized losses on investments	(8)		(12)	(4)
Comprehensive income	\$ 6,528	\$ 2,530	\$ 13,599	\$ 6,593
Earnings per common share:				
Basic	\$ 0.21	\$ 0.08	\$ 0.46	\$ 0.21
Diluted	\$ 0.17	\$ 0.07	\$ 0.37	\$ 0.20
Weighted average number of common shares outstanding:				
Basic	24,995	16,453	19,331	16,402
Diluted	38,647	34,714	36,864	33,773

See accompanying notes to consolidated financial statements.

Heartland Payment Systems, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

(In thousands)

(unaudited)

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	Preferred Stock		Common Stock	
	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount
Balance, December 31, 2004	7,619	\$ 8	16,438	\$ 8
Issuance of Common Stock— options exercised			1,446	1
Issuance of Common Stock on initial public offering			2,759	3
Accumulated other comprehensive income				
Conversion of preferred stock	(7,619)	(8)	13,333	13
Two for one stock split				8
Exercise of warrants			169	
Net income for the period				
Balance September 30, 2005		\$	34,145	\$ 33

(Continued)

	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity
Balance, December 31, 2004	\$ 41,065	\$ (10)	\$ (34,972)	\$ 6,099
Issuance of Common Stock— options exercised	6,429			6,430
Issuance of Common Stock on initial public offering	41,709			41,712
Accumulated other comprehensive loss		(12)		(12)
Conversion of preferred stock	(5)			
Two for one stock split	(8)			
Exercise of warrants	4,478			4,478
Net income for the period			13,611	13,611
Balance September 30, 2005	\$ 93,668	\$ (22)	\$ (21,361)	\$ 72,318

See accompanying notes to consolidated financial statements.

Heartland Payment Systems, Inc. and Subsidiary

Consolidated Statements of Cash Flow

(In thousands)

(unaudited)

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities		
Net income	\$ 13,611	\$ 6,597
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,671	16,272
Fair value adjustment for warrants with mandatory redemption provisions	2,912	509
Gain on settlement of financing arrangement	(5,140)	
Deferred taxes	1,030	3,962
Loss on disposal of property and equipment	33	
Changes in operating assets and liabilities:		
Increase in receivables	(10,027)	(9,975)
Increase in inventory	(662)	(55)
Increase in capitalized customer acquisition costs	(24,893)	(19,901)
Increase in prepaid expenses	(123)	(1,291)
Decrease (increase) in deposits and other assets	1	(3)
Increase in due to sponsor bank and accounts payable	1,585	7,259
Increase in accrued expenses and other	197	2,445
Increase in merchant deposits and loss reserves	1,191	736
Increase in accrued buyout liability	419	3,501
Net cash provided by operating activities	2,805	10,056
Cash flows from investing activities		
Purchase of investments	(410)	(370)
Maturities of investments	166	493
Purchases of property and equipment	(9,274)	(7,504)
Proceeds from disposal of property and equipment	27	
Net cash used in investing activities	(9,491)	(7,381)
Cash flows from financing activities		
Redemption of warrants issued in connection with debt financing		(1,055)
Redemption of warrants issued in connection with Series A Senior Convertible Participating Preferred Stock		(5,250)
Principal payments on borrowings and financing arrangements	(7,459)	(2,250)
Proceeds from exercise of stock options	6,430	964
Repurchase of common stock		(143)
Net proceeds from sale of common stock	41,712	
Net cash provided by (used in) financing activities	40,683	(7,734)
Net increase (decrease) in cash and cash equivalents	33,997	(5,059)
Cash and cash equivalents at beginning of year	13,237	13,004
Cash and cash equivalents at end of period	\$ 47,234	\$ 7,945
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,339	\$ 971
Income taxes	11,312	569
Supplemental schedule of non-cash activities:		

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Amortization of other assets	\$	112	\$	192
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See accompanying notes to consolidated financial statements.