

CARDTRONICS INC
Form 10-Q
August 04, 2011

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 June 30, 2011

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
(State or other jurisdiction of
incorporation or organization)

76-0681190
(I.R.S. Employer
Identification No.)

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

77042
(Zip Code)

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 August 1, 2011: 43,553,797

CARDTRONICS, INC.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	1
Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010	1
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010	2
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010	3
Notes to Consolidated Financial Statements	4
Cautionary Statement Regarding Forward-Looking Statements	30
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3. Quantitative and Qualitative Disclosures About Market Risk	47
Item 4. Controls and Procedures	49
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	50
Item 1A. Risk Factors	50
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	50
Item 6. Exhibits	50
Signatures	51

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)

	June 30, 2011 <i>(unaudited)</i>	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,998	\$ 3,189
Accounts and notes receivable, net of allowance of \$286 and \$507 as of June 30, 2011 and December 31, 2010, respectively	26,787	20,270
Inventory	1,770	1,795
Restricted cash	3,396	4,466
Current portion of deferred tax asset, net	13,780	15,017
Prepaid expenses, deferred costs, and other current assets	13,821	10,222
Total current assets	63,552	54,959
Property and equipment, net	162,209	156,465
Intangible assets, net	69,596	74,799
Goodwill	164,974	164,558
Deferred tax asset, net	738	715
Prepaid expenses, deferred costs, and other assets	20,338	3,819
Total assets	\$ 481,407	\$ 455,315

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt and notes payable	\$ 3,326	\$ 3,076
Current portion of other long-term liabilities	24,755	24,493
Accounts payable	15,972	20,167
Accrued liabilities	50,882	50,543
Current portion of deferred tax liability, net	738	715
Total current liabilities	95,673	98,994
Long-term liabilities:		
Long-term debt, net of related discounts	244,399	251,757
Deferred tax liability, net	16,276	10,268
Asset retirement obligations	29,052	26,657
Other long-term liabilities	32,899	23,385
Total liabilities	418,299	411,061

Commitments and contingencies

Stockholders' equity:

Common stock, \$0.0001 par value; 125,000,000 shares authorized; 49,121,869 and 48,396,134 shares issued as of June 30, 2011 and December 31, 2010, respectively; 43,401,326 and 42,833,342 shares outstanding as of June 30, 2011 and December 31, 2010, respectively	4	4
Additional paid-in capital	225,361	213,754
Accumulated other comprehensive loss, net	(70,347)	(65,053)
Accumulated deficit	(40,768)	(55,963)
Treasury stock; 5,720,543 and 5,562,792 shares at cost as of June 30, 2011 and December 31, 2010, respectively	(53,209)	(50,351)
Total parent stockholders' equity	61,041	42,391
Noncontrolling interests	2,067	1,863
Total stockholders' equity	63,108	44,254
Total liabilities and stockholders' equity	\$ 481,407	\$ 455,315

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
ATM operating revenues	\$ 141,429	\$ 130,560	\$ 274,528	\$ 256,247
ATM product sales and other revenues	5,865	2,388	10,807	4,477
Total revenues	147,294	132,948	285,335	260,724
Cost of revenues:				
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization shown separately below. See <i>Note 1</i>)	93,117	87,414	181,903	173,293
Cost of ATM product sales and other revenues	5,214	2,314	9,561	4,507
Total cost of revenues	98,331	89,728	191,464	177,800
Gross profit	48,963	43,220	93,871	82,924
Operating expenses:				
Selling, general, and administrative expenses	13,268	10,272	26,272	21,415
Depreciation and accretion expense	11,437	10,264	22,807	20,486
Amortization expense	3,667	3,765	7,294	7,744
Loss on disposal of assets	86	1,095	163	1,472
Total operating expenses	28,458	25,396	56,536	51,117
Income from operations	20,505	17,824	37,335	31,807
Other expense (income):				
Interest expense, net	4,754	7,314	9,567	14,632
Amortization of deferred financing costs and bond discounts	213	642	424	1,272
Other expense (income)	139	(332)	(60)	34
Total other expense	5,106	7,624	9,931	15,938
Income before income taxes	15,399	10,200	27,404	15,869
Income tax expense	6,657	1,952	12,104	3,391
Net income	8,742	8,248	15,300	12,478
Net income attributable to noncontrolling interests	27	45	105	310
Net income attributable to controlling interests and available to common	\$ 8,715	\$ 8,203	\$ 15,195	\$ 12,168

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stockholders

Net income per common share – basic	\$	0.20	\$	0.20	\$	0.35	\$	0.29
Net income per common share – diluted	\$	0.20	\$	0.19	\$	0.35	\$	0.29
Weighted average shares outstanding – basic		41,910,944		40,017,215		41,712,659		39,910,928
Weighted average shares outstanding – diluted		42,659,587		41,092,258		42,476,101		40,894,506

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 15,300	\$ 12,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion, and amortization expense	30,101	28,230
Amortization of deferred financing costs and bond discounts	424	1,272
Stock-based compensation expense	4,624	2,896
Deferred income taxes	11,554	1,891
Loss on disposal of assets	163	1,472
Unrealized gain on derivative instruments	(519)	(506)
Amortization of accumulated other comprehensive losses associated with derivative instruments no longer designated as hedging instruments	232	946
Other reserves and non-cash items	678	959
Changes in assets and liabilities:		
(Increase) decrease in accounts and notes receivable, net	(6,484)	7,525
Decrease (increase) in prepaid, deferred costs, and other current assets	60	(2,185)
(Increase) decrease in inventory	(333)	535
(Increase) decrease in other assets	(19,024)	1,328
(Decrease) increase in accounts payable	(4,382)	5,646
Increase (decrease) in accrued liabilities	558	(7,067)
Decrease in other liabilities	(1,913)	(2,819)
Net cash provided by operating activities	31,039	52,601
Cash flows from investing activities:		
Additions to property and equipment	(23,090)	(20,783)
Payments for exclusive license agreements, site acquisition costs and other intangible assets	(2,307)	(229)
Net cash used in investing activities	(25,397)	(21,012)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	107,900	—
Repayments of long-term debt and capital leases	(115,445)	(1,277)
Repayments of borrowings under bank overdraft facility, net	(1,042)	—
Proceeds from exercises of stock options	5,931	301

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Repurchase of capital stock	(2,015)		(1,390)
Net cash used in financing activities	(4,671)		(2,366)
Effect of exchange rate changes on cash	(162)		417
Net increase in cash and cash equivalents	809		29,640
Cash and cash equivalents as of beginning of period	3,189		10,449
Cash and cash equivalents as of end of period	\$ 3,998	\$	40,089

Supplemental disclosure of cash flow information:

Cash paid for interest, including interest on capital leases	\$ 9,911	\$	14,667
Cash paid for income taxes	\$ 1,691	\$	398
Fixed assets financed by direct debt	\$ —	\$	542

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 automated consumer financial services through its network of automated teller machines ("ATMs") and multi-function financial services kiosks. As of June 30, 2011, the Company provided services to over 37,800 devices across its portfolio, which included over 31,600 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 3,300 devices throughout the United Kingdom ("U.K."), and approximately 2,900 devices throughout Mexico. Included in the U.S. number are approximately 2,200 multi-function financial services kiosks deployed in the U.S. 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 off-premise ATMs using electronic imaging), and money transfers. Also included in the total count of 37,800 devices are approximately 4,300 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. The Company also partners with leading national and regional financial institutions to brand selected ATMs and financial services kiosks within its network. As of June 30, 2011, over 12,300 of the Company's devices were under contract with financial institutions to place their logos on those machines, thus providing convenient surcharge-free access for their banking customers. Additionally, the Company owns and operates the Allpoint network, the largest surcharge-free ATM network within the United States (based on the number of participating ATMs). The Allpoint network, which has more than 43,000 participating ATMs, 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, 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. 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, 2010 ("2010 Form 10-K"), which includes a summary of the Company's significant accounting policies and other disclosures.

The financial statements as of June 30, 2011 and for the three and six month periods ended June 30, 2011 and 2010 are unaudited. The Consolidated Balance Sheet as of December 31, 2010 was derived from the audited balance sheet filed in the Company's 2010 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 six month periods ended June 30, 2011 and 2010 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	<i>(In thousands)</i>			
Depreciation and accretion expenses related to ATMs and ATM-related assets	\$ 9,855	\$ 8,337	\$ 19,641	\$ 16,636
Amortization expense	3,667	3,765	7,294	7,744
Total depreciation, accretion, and amortization expenses excluded from Cost of ATM operating revenues and Gross profit	\$ 13,522	\$ 12,102	\$ 26,935	\$ 24,380

(2) 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 Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	<i>(In thousands)</i>			
Cost of ATM operating revenues	\$ 253	\$ 169	\$ 519	\$ 368
Selling, general, and administrative expenses	2,140	1,268	4,105	2,528
Total stock-based compensation expense	\$ 2,393	\$ 1,437	\$ 4,624	\$ 2,896

The increase in stock-based compensation expense during the three and six month periods ended June 30, 2011 was due to the issuance of additional shares of restricted stock awards ("RSAs"), stock options and restricted stock units ("RSUs") to certain of the Company's employees and directors during the second half of 2010 and in 2011. All grants

during the periods above were granted under the Company's Amended and Restated 2007 Stock Incentive Plan (the "2007 Stock Incentive Plan").

During the first quarter of 2011, the Company granted RSUs under the Company's 2011 Long Term Incentive Plan (the "2011 LTIP"), which is an equity program under the 2007 Stock Incentive Plan. A base pool of 273,411 RSUs has been set aside for the 2011 LTIP. From this amount, the Compensation Committee of the Company's Board of Directors (the "Committee") granted RSUs totaling 264,750, which could result in the issuance of up to 546,822 shares of common stock in the future, depending on the Company's achievement of certain performance levels during calendar year 2011. The fair value of an individual RSU granted under the 2011 LTIP was \$16.82 on the date of the grant. These grants have both a performance-based and a service-based vesting schedule; accordingly, the number of RSUs potentially earned by an individual will be based on the level of performance achieved during calendar year 2011. Once the performance-based vesting requirements are determined to be met by the Committee, the RSUs will be earned by the individual and will vest 50% on the second anniversary of the grant date and 25% each on the third and fourth anniversaries of the grant date. Although the RSUs will not be considered earned and outstanding until at least the minimum performance metrics are met, 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.

Options. The number of the Company's outstanding stock options as of June 30, 2011, and changes during the six month period ended June 30, 2011, are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as of January 1, 2011	2,511,105	\$ 9.63
Exercised	(704,239)	\$ 9.91
Forfeited	(5,000)	\$ 8.96
Options outstanding as of June 30, 2011	1,801,866	\$ 9.52
Options vested and exercisable as of June 30, 2011	1,657,741	\$ 9.76

As of June 30, 2011, the unrecognized compensation expense associated with outstanding options was approximately \$0.4 million.

Restricted Stock Awards. The number of the Company's outstanding RSAs as of June 30, 2011, and changes during the six month period ended June 30, 2011, are presented below:

	Number of Shares
RSAs outstanding as of January 1, 2011	1,558,315
Granted	21,496
Vested	(516,628)
Forfeited	(12,500)
RSAs outstanding as of June 30, 2011	1,050,683

The restricted shares granted during the six month period ended June 30, 2011 had a total grant-date fair value of approximately \$0.4 million, or \$19.27 per share. As of June 30, 2011, the unrecognized compensation expense associated with restricted share grants was approximately \$10.4 million.

(3) 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 six month periods ended June 30, 2011 and 2010 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 six month periods ended June 30, 2011 and 2010 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):

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	Weighted		Earnings	Weighted		Earnings
	Average		Per	Average		Per
	Shares		Share	Shares		Share
	Outstanding	Income		Outstanding	Income	
Basic:						
Net income attributable to controlling interests and available to common stockholders		\$ 8,715			\$ 15,195	
Less: undistributed earnings allocated to unvested restricted shares		(262)			(478)	
Net income available to common stockholders		\$ 8,453	41,910,944	\$ 0.20	\$ 14,717	41,712,659
						\$ 0.35
Diluted:						
Effect of dilutive securities:						
Add: Undistributed earnings allocated to restricted shares		\$ 262			\$ 478	
Stock options added to the denominator under the treasury stock method			748,643			763,442
Less: Undistributed earnings reallocated to restricted shares		(258)			(470)	
Net income available to common stockholders and assumed conversions		\$ 8,457	42,659,587	\$ 0.20	\$ 14,725	42,476,101
						\$ 0.35

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
	Weighted		Weighted	
	Average		Average	Earnings
	Shares	Income	Shares	Income
	Outstanding		Outstanding	

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	Income	Shares Outstanding	Per Share	Income	Shares Outstanding	Per Share
Basic:						
Net income attributable to controlling interests and available to common stockholders	\$ 8,203			\$ 12,168		
Less: undistributed earnings allocated to unvested restricted shares	(347)			(499)		
Net income available to common stockholders	\$ 7,856	40,017,215	\$ 0.20	\$ 11,669	39,910,928	\$ 0.29