CARDTRONICS INC
Form 10-Q
May 07, 2010

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

(Mark One)

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

For the quarterly period ended March 31, 2010

or

o **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 incorporation or organization)	(I.R.S. Employer Identification No.)
3250 Briarpark Drive, Suite 400 Houston, TX	**77042**
(Address of principal executive offices)	(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 þ No o

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

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

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

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

Common Stock, par value: $0.0001 per share. Shares outstanding on May 3, 2010: 41,782,077

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2010 *(Unaudited)*	December 31, 2009 *(Audited)*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,694	$ 10,449
Accounts and notes receivable, net of allowance of $503 and $560 as of March 31, 2010 and December 31, 2009, respectively	27,004	27,700
Inventory	1,977	2,617
Restricted cash, short-term	3,151	3,452
Prepaid expenses, deferred costs, and other current assets	9,333	8,850
Total current assets	52,159	53,068
Property and equipment, net	144,657	147,348
Intangible assets, net	84,084	89,036
Goodwill	164,235	165,166
Prepaid expenses, deferred costs, and other assets	4,187	5,786
Total assets	$ 449,322	$ 460,404
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt and notes payable	$ 2,353	$ 2,122
Capital lease obligations	96	235
Current portion of other long-term liabilities	26,242	26,047
Accounts payable	15,091	12,904
Accrued liabilities	41,837	57,583
Current portion of deferred tax liability, net	3,127	3,121
Total current liabilities	88,746	102,012
Long-term liabilities:		
Long-term debt, net of related discounts	304,835	304,930
Deferred tax liability, net	13,189	12,250
Asset retirement obligations	24,655	24,003
Other long-term liabilities	20,174	18,499
Total liabilities	451,599	461,694
Commitments and contingencies		
Stockholders deficit:		

Common stock, $0.0001 par value; 125,000,000 shares authorized; 47,111,943 and 46,238,028 shares issued as of March 31, 2010 and December 31, 2009, respectively; 41,749,447 and 40,900,532 shares outstanding as of March 31, 2010 and December 31, 2009, respectively		4		4
Additional paid-in capital		201,995		200,323
Accumulated other comprehensive loss, net		(64,337)		(57,618)
Accumulated deficit		(92,957)		(96,922)
Treasury stock; 5,362,496 and 5,337,496 shares at cost as of March 31, 2010 and December 31, 2009, respectively		(48,938)		(48,679)
Total parent stockholders deficit		(4,233)		(2,892)
Noncontrolling interests		1,956		1,602
Total stockholders deficit		(2,277)		(1,290)
Total liabilities and stockholders deficit	$	449,322	$	460,404

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2010	2009
Revenues:		
ATM operating revenues	$ 125,687	$ 113,580
ATM product sales and other revenues	2,089	1,765
Total revenues	127,776	115,345
Cost of revenues:		
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization shown separately below. See *Note 1*)	85,879	82,229
Cost of ATM product sales and other revenues	2,193	1,814
Total cost of revenues	88,072	84,043
Gross profit	39,704	31,302
Operating expenses:		
Selling, general, and administrative expenses	11,143	10,855
Depreciation and accretion expense	10,222	9,639
Amortization expense	3,979	4,527
Loss on disposal of assets	377	2,108
Total operating expenses	25,721	27,129
Income from operations	13,983	4,173
Other expense (income):		
Interest expense, net	7,318	7,711
Amortization of deferred financing costs and bond discounts	630	568
Other expense (income)	366	(86)
Total other expense	8,314	8,193
Income (loss) before income taxes	5,669	(4,020)
Income tax expense	1,439	1,017
Net income (loss)	4,230	(5,037)
Net income attributable to noncontrolling interests	265	31
Net income (loss) attributable to controlling interests and available to common stockholders	$ 3,965	$ (5,068)
Net income (loss) per common share basic	$ 0.10	$ (0.13)
Net income (loss) per common share diluted	$ 0.09	$ (0.13)
Weighted average shares outstanding basic	39,850,122	38,960,083

Weighted average shares outstanding diluted	40,721,310	38,960,083

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 4,230	$ (5,037)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, accretion, and amortization expense	14,201	14,166
Amortization of deferred financing costs and bond discounts	630	568
Stock-based compensation expense	1,459	1,058
Deferred income taxes	945	946
Loss on disposal of assets	377	2,108
Unrealized gain on derivative instruments	(248)	
Amortization of accumulated other comprehensive losses associated with derivative instruments no longer designated as hedging instruments	493	
Other reserves and non-cash items	475	(456)
Changes in assets and liabilities:		
Decrease in accounts and notes receivable, net	623	2,240
(Increase) decrease in prepaid, deferred costs, and other current assets	(845)	4,631
Decrease (increase) in inventory	460	(181)
Decrease in other assets	980	561
Increase (decrease) in accounts payable	1,969	(1,920)
Decrease in accrued liabilities	(15,199)	(10,464)
Decrease in other liabilities	(1,364)	(1,273)
Net cash provided by operating activities	9,186	6,947
Cash flows from investing activities:		
Additions to property and equipment	(8,526)	(4,917)
Payments for exclusive license agreements and site acquisition costs	(79)	(59)
Net cash used in investing activities	(8,605)	(4,976)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		23,500
Repayments of long-term debt and capital leases	(647)	(18,936)
Repayments of borrowings under bank overdraft facility, net		(142)
Payments received on subscriptions receivable		34
Proceeds from exercises of stock options	110	
Debt issuance and modification costs		(438)
Repurchase of capital stock	(260)	(1)
Net cash (used in) provided by financing activities	(797)	4,017

Effect of exchange rate changes on cash		461		39
Net increase in cash and cash equivalents		245		6,027
Cash and cash equivalents as of beginning of period		10,449		3,424
Cash and cash equivalents as of end of period	$	10,694	$	9,451
Supplemental disclosure of cash flow information:				
Cash paid for interest, including interest on capital leases	$	14,271	$	14,634
Cash paid for income taxes	$	100	$	

See accompanying notes to consolidated financial statements.

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CARDTRONICS, INC.
NOTES TO 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 March 31, 2010, the Company operated over 33,700 devices across its portfolio, which included over 28,100 devices located in all 50 states of the United States (U.S.) (including the U.S. territories of Puerto Rico and the U.S. Virgin Islands), over 2,700 devices throughout the United Kingdom (U.K.), and approximately 2,900 devices throughout Mexico. Included within this number were 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.

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. Additionally, the Company operates the largest surcharge-free network of ATMs within the United States (based on the number of participating ATMs) and works with financial institutions to place their logos on the Company s ATM machines, thus providing convenient surcharge-free access to the financial institutions customers. The Company s surcharge-free network, which operates under the Allpoint brand name, has more than 37,000 participating ATMs, including a majority of the Company s ATMs in the United States and all of the Company s ATMs in the United Kingdom. Finally, the Company provides electronic funds transfer (EFT) transaction processing services to its network of ATMs as well as approximately 1,900 ATMs owned and operated by third parties.

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, 2009 (2009 Form 10-K), which includes a summary of the Company s significant accounting policies and other disclosures.

The financial statements as of March 31, 2010 and for the three month periods ended March 31, 2010 and 2009 are unaudited. The Consolidated Balance Sheet as of December 31, 2009 was derived from the audited balance sheet filed in the Company s 2009 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 month periods ended March 31, 2010 and 2009 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 loss or stockholders deficit.

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 interest not held by the Company being reflected as a noncontrolling interest.

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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 three month periods ended March 31:

	2010	2009
	(In thousands)	
Depreciation and accretion expense related to ATMs and ATM-related assets	$ 8,299	$ 8,037
Amortization expense	3,979	4,527
Total depreciation, accretion, and amortization expense excluded from Cost of ATM operating revenues and Gross profit	$ 12,278	$ 12,564

Property and Equipment, net

In accounting for property and equipment, the Company is required to make estimates regarding the expected useful lives of its assets, which ranged historically from three to seven years. To ensure its useful life estimates accurately reflect the economic use of the assets, the Company periodically evaluates whether changes to the assigned estimated useful lives are necessary. As a result of its most recent evaluation, which was based on historical information on its existing and disposed assets, the Company revised the estimated useful lives of several asset classes. Specifically, the Company determined that it was appropriate to extend the estimated useful life of new ATMs by one year and reduce the estimated useful life of used ATMs by two years starting January 1, 2010. The Company also decreased the estimated useful lives of deployment costs and asset retirement obligations by two years each to more accurately align the periods over which these assets are depreciated with the average time period an ATM is installed in a location before being deinstalled. The Company anticipates that the above changes will increase its future depreciation expense amounts slightly relative to prior years, and reduce the frequency and amount of losses on disposals of assets in future periods.

(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 three month periods ended March 31:

	2010	2009
	(In thousands)	
Cost of ATM operating revenues	$ 199	$ 191
Selling, general, and administrative expenses	1,260	867
Total stock-based compensation expense	$ 1,459	$ 1,058

The increase in stock-based compensation expense during the three months ended March 31, 2010 was due to the issuance of additional shares of restricted stock and stock options to certain of the Company s employees and directors during 2009 and 2010. Both the restricted shares and the stock options were granted under the Company s 2007 Stock Incentive Plan.

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Options. The number of the Company s outstanding stock options as of March 31, 2010, and changes during the three months ended March 31, 2010, are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as of January 1, 2010	3,803,771	$ 8.34
Granted	23,000	$ 10.95
Exercised	(143,975)	$ 1.48
Options outstanding as of March 31, 2010	3,682,796	$ 8.63
Options vested and exercisable as of March 31, 2010	3,080,349	$ 8.34

The options granted during the first quarter of 2010 had a total grant-date fair value of approximately $126,500, or $5.50 per share. As of March 31, 2010, the unrecognized compensation expense associated with outstanding options was approximately $1.5 million.

Restricted Stock. The number of the Company s outstanding restricted shares as of March 31, 2010, and changes during the three months ended March 31, 2010, are presented below:

	Number of Shares
Restricted shares outstanding as of January 1, 2010	1,114,437
Granted	729,940
Restricted shares outstanding as of March 31, 2010	1,844,377

The restricted shares granted to employees and directors during the first quarter of 2010 had a total grant-date fair value of approximately $7.9 million, or $10.89 per share. As of March 31, 2010, the unrecognized compensation expense associated with restricted share grants was approximately $14.3 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 income statement impacts) when their impact on net income (loss) available to common stockholders is anti-dilutive. For the three month period ended March 31, 2009, the Company incurred a net loss and, accordingly, excluded all potentially dilutive securities from the calculation of diluted earnings per share as their impact on the net loss available to common stockholders was anti-dilutive. Such securities included all outstanding stock options and shares of restricted stock. However, dilutive securities were included in the calculation of diluted earnings per share for the three month period ended March 31, 2010 as the Company reported net income for this period.

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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, such restricted shares are considered to be participating securities and as such, the Company has allocated the undistributed earnings for the three months ended March 31, 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 March 31, 2010		
	Income	Weighted Average Shares Outstanding	Earnings Per Share
Basic:			
Net income attributable to controlling interests and available to common stockholders	$ 3,965		
Less: undistributed earnings allocated to unvested restricted shares	(157)		
Net income available to common stockholders	$ 3,808	39,850,122	$ 0.10
Diluted:			
Effect of dilutive securities:			
Add: Undistributed earnings allocated to restricted shares	157		
Stock options added to the denominator under the treasury stock method		871,188	
Less: Undistributed earnings reallocated to restricted shares	(154)		
Net income available to common stockholders and assumed conversions	$ 3,811	40,721,310	$ 0.09

The computation of diluted earnings per share for the three month period ended March 31, 2010 excluded 422,090 shares of potentially dilutive common shares related to restricted stock because the effect would have been anti-dilutive.

(4) Comprehensive Income (Loss)

Total comprehensive income (loss) consisted of the following:

	Three Months Ended March 31,	
	2010	**2009**
	(In thousands)	
Net income (loss)	$ 4,230	$ (5,037)
Unrealized (losses) gains on interest rate hedges	(3,384)	1,193
Foreign currency translation adjustments	(3,335)	(1,415)
Total comprehensive loss	(2,489)	(5,259)
Less: comprehensive income attributable to noncontrolling interests	354	10
Comprehensive loss attributable to controlling interests	$ (2,843)	$ (5,269)

Accumulated other comprehensive loss is displayed as a separate component of stockholders deficit in the Consolidated Balance Sheets and consisted of the following:

	March 31, 2010	December 31, 2009
	(In thousands)	
Foreign currency translation adjustments	$ (27,755)	$ (24,420)
Unrealized losses on interest rate hedges	(36,582)	(33,198)
Total accumulated other comprehensive loss	$ (64,337)	$ (57,618)

The Company currently believes that the unremitted earnings of its United Kingdom and Mexico subsidiaries will be reinvested in the corresponding country of origin for an indefinite period of time. While the Company s United Kingdom subsidiary has recently begun repaying certain working capital advances provided by the Company s domestic entities during the past few years, the Company s original capital investment amounts are not expected to be repaid in the foreseeable future. Accordingly, no deferred taxes have been provided for on the differences between the Company s book basis and underlying tax basis in those subsidiaries or on the foreign currency translation adjustment amounts.

Additionally, as a result of the Company s overall net loss position for tax purposes, the Company has not recorded deferred tax benefits on the loss amounts related to its interest rate swaps, as management does not currently believe the Company will be able to realize the benefits associated with its net deferred tax asset positions.

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(5) 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 March 31, 2010, as well as the changes in the net carrying amounts for the three months ended March 31, 2010, by segment:

	Goodwill			Trade Name		
	U.S.	**U.K.**	**Mexico**	**U.S.**	**U.K.**	**Total**
			(In thousands)			
Balance as of January 1, 2010:						
Gross balance	$ 150,461	$ 63,994	$ 714	$ 200	$ 3,243	$ 218,612
Accumulated impairment loss		(50,003)				(50,003)
	$ 150,461	$ 13,991	$ 714	$ 200	$ 3,243	$ 168,609