CARDTRONICS INC
Form 10-Q
April 30, 2012

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, 2012
	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** (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 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 þ No o

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

Large accelerated filer R	Accelerated filer £	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 o No þ

Common Stock, par value: $0.0001 per share. Shares outstanding on April 26, 2012: 44,118,696

CARDTRONICS, INC.

TABLE OF CONTENTS

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)

	March 31, 2012 *(unaudited)*	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,213	$ 5,576
Accounts and notes receivable, net of allowance of $419 and $251 as of March 31, 2012 and December 31, 2011, respectively	48,321	40,867
Inventory	5,793	3,517
Restricted cash	4,420	4,512
Current portion of deferred tax asset, net	25,476	26,902
Prepaid expenses, deferred costs, and other current assets	12,081	13,056
Total current assets	102,304	94,430
Property and equipment, net	209,345	191,331
Intangible assets, net	106,486	111,603
Goodwill	272,476	271,562
Deferred tax asset, net	24,866	23,101
Prepaid expenses, deferred costs, and other assets	18,145	20,774
Total assets	$ 733,622	$ 712,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and notes payable	$ 2,107	$ 2,317
Current portion of other long-term liabilities	25,235	25,101
Accounts payable	27,427	33,337
Accrued liabilities	77,396	77,948
Current portion of deferred tax liability, net	956	927
Total current liabilities	133,121	139,630
Long-term liabilities:		
Long-term debt	373,501	368,632
Asset retirement obligations	37,502	34,517
Other long-term liabilities	68,453	56,877
Total liabilities	612,577	599,656
Commitments and contingencies		

Stockholders' equity:				
Common stock, $0.0001 par value; 125,000,000 shares authorized; 49,910,304 and 49,745,989 shares issued as of March 31, 2012 and December 31, 2011, respectively; 44,109,427 and 43,999,443 shares outstanding as of March 31, 2012 and December 31, 2011, respectively		4		4
Additional paid-in capital		238,320		234,716
Accumulated other comprehensive loss, net		(88,380)		(83,902)
Retained earnings		24,099		14,270
Treasury stock; 5,800,877 and 5,746,546 shares at cost as of March 31, 2012 and December 31, 2011, respectively		(54,906)		(53,500)
Total parent stockholders' equity		119,137		111,588
Noncontrolling interests		1,908		1,557
Total stockholders' equity		121,045		113,145
Total liabilities and stockholders' equity	$	733,622	$	712,801

See accompanying notes to consolidated financial statements.

1

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

	Three Months Ended March 31, 2012	2011
Revenues:		
ATM operating revenues	$ 177,813	$ 133,099
ATM product sales and other revenues	13,227	4,942
Total revenues	191,040	138,041
Cost of revenues:		
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization shown separately below. See *Note 1*)	120,627	88,786
Cost of ATM product sales and other revenues	11,781	4,347
Total cost of revenues	132,408	93,133
Gross profit	58,632	44,908
Operating expenses:		
Selling, general, and administrative expenses	16,075	13,004
Acquisition-related expenses	1,087	—
Depreciation and accretion expense	13,750	11,370
Amortization expense	5,475	3,627
Loss on disposal of assets	548	77
Total operating expenses	36,935	28,078
Income from operations	21,697	16,830
Other expense (income):		
Interest expense, net	5,365	4,813
Amortization of deferred financing costs	220	211
Other income	(77)	(199)
Total other expense	5,508	4,825
Income before income taxes	16,189	12,005
Income tax expense	6,146	5,447
Net income	10,043	6,558
Net income attributable to noncontrolling interests	214	78
Net income attributable to controlling interests and available to common stockholders	$ 9,829	$ 6,480
Net income per common share – basic and diluted	$ 0.22	$ 0.15
Weighted average shares outstanding – basic	43,058,215	41,512,171
Weighted average shares outstanding – diluted	43,562,618	42,269,940

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
Net income	$	10,043	$	6,558
Unrealized (losses) gains on interest rate swap contracts, net of income tax (benefit) expense of $(4,614) and $1,221 for the three months ended March 31, 2012 and 2011, respectively		(6,372)		3,023
Foreign currency translation adjustments		1,894		1,614
Other comprehensive (loss) income		(4,478)		4,637
Total comprehensive income		5,565		11,195
Less: comprehensive income attributable to noncontrolling interests		352		151
Comprehensive income attributable to controlling interests	$	5,213	$	11,044

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash flows from operating activities:		
Net income	$ 10,043	$ 6,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion, and amortization expense	19,225	14,997
Amortization of deferred financing costs	220	211
Stock-based compensation expense	2,560	2,230
Deferred income taxes	5,380	5,063
Loss on disposal of assets	548	77
Unrealized gain on derivative instruments	(129)	(267)
Amortization of accumulated other comprehensive (gains) losses associated with derivative instruments no longer designated as hedging instruments	(45)	154
Other reserves and non-cash items	454	394
Changes in assets and liabilities:		
Increase in accounts and notes receivable, net	(7,332)	(3,379)
Decrease in prepaid, deferred costs, and other current assets	564	837
Increase in inventory	(2,593)	(8)
Decrease (increase) in other assets	2,931	(3,443)
Decrease in accounts payable	(6,857)	(2,550)
Decrease in accrued liabilities	(4,731)	(4,700)
Decrease in other liabilities	(1,497)	(1,219)
Net cash provided by operating activities	18,741	14,955
Cash flows from investing activities:		
Additions to property and equipment	(21,324)	(13,601)
Payments for exclusive license agreements, site acquisition costs and other intangible assets	(362)	(1,448)
Acquisitions	(250)	—
Net cash used in investing activities	(21,936)	(15,049)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	53,700	52,600
Repayments of long-term debt and capital leases	(49,470)	(52,373)
Repayments of borrowings under bank overdraft facility, net	(212)	(1,051)

Proceeds from exercises of stock options		1,264		2,635
Repurchase of capital stock		(1,406)		(962)
Net cash provided by financing activities		3,876		849
Effect of exchange rate changes on cash		(44)		(260)
Net increase in cash and cash equivalents		637		495
Cash and cash equivalents as of beginning of period		5,576		3,189
Cash and cash equivalents as of end of period	$	6,213	$	3,684
Supplemental disclosure of cash flow information:				
Cash paid for interest, including interest on capital leases	$	9,545	$	9,132
Cash paid for income taxes	$	744	$	921

See accompanying notes to consolidated financial statements.

4

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 March 31, 2012, the Company provided services to over 53,900 devices across its portfolio, which included approximately 46,800 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 3,800 devices throughout the United Kingdom ("U.K."), approximately 2,800 devices throughout Mexico, and approximately 500 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 53,900 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., and PNC Bank, N.A. As of March 31, 2012, over 15,800 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 United States (based on the number of participating ATMs). The Allpoint network, which has more than 47,800 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. 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 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 ("2011 Form 10-K"), which includes a summary of the Company's significant accounting policies and other disclosures.

The financial statements as of March 31, 2012 and for the three month periods ended March 31, 2012 and 2011 are unaudited. The Consolidated Balance Sheet as of December 31, 2011 was derived from the audited balance sheet filed in the 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 month periods ended March 31, 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 three month periods ended March 31:

		2012		**2011**
		(In thousands)		
Depreciation and accretion expenses related to ATMs and ATM-related assets	$	11,905	$	9,787
Amortization expense		5,475		3,627
Total depreciation, accretion, and amortization expenses excluded from Cost of ATM operating revenues and Gross profit	$	17,380	$	13,414

(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 months ended March 31, 2011, after giving effect to certain pro forma adjustments including: (i) elimination of intercompany transactions prior to the consummation of EDC into the Company, (ii) amortization of acquired intangible assets and unfavorable contract liabilities assumed, (iii) the impact of certain fair value adjustments such as depreciation on the acquired property and equipment, and (iv) an interest expense adjustment to remove the historical long-term debt of EDC that was repaid and to add interest expense on additional borrowings by the Company to fund the acquisition.

	Three Months Ended March 31, 2011 (In thousands)			
		As Reported		***Pro Forma***
Total revenues	$	138,041	$	152,879
Net income attributable to controlling interests and available to common stockholders		6,480		7,403
Pro forma earnings per share – basic and diluted	$	0.15	$	0.18

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 assume that the acquisition occurred on January 1, 2010, and are not necessarily indicative of the actual results that would have occurred had those transactions been completed on that date. 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 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.

Additionally, on January 25, 2012, the Company acquired certain assets from Complete Technical Services Limited ("CTS") in the United Kingdom, an ATM installation company. The acquisition of the CTS assets did not have a material effect on the Company's consolidated results of operations during the quarter ended March 31, 2012.

(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 three month periods ended March 31:

		2012		2011
		(In thousands)		
Cost of ATM operating revenues	$	203	$	265
Selling, general, and administrative expenses		2,357		1,965
Total stock-based compensation expense	$	2,560	$	2,230

The increase in stock-based compensation expense during the three month period ended March 31, 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 2011 and 2012. 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 March 31, 2012, and changes during the three month period ended March 31, 2012, are presented below:

	Number of Shares		Weighted Average Exercise Price
Options outstanding as of January 1, 2012	1,281,950	$	9.73
Exercised	(120,017	$	8.70

)

Options outstanding as of March 31, 2012	1,161,933	$	9.84
Options vested and exercisable as of March 31, 2012	1,087,933	$	10.01

As of March 31, 2012, the unrecognized compensation expense associated with outstanding options was approximately $0.2 million.

Restricted Stock Awards. The number of the Company's outstanding RSAs as of March 31, 2012, and changes during the three month period ended March 31, 2012, are presented below:

	Number of Shares
RSAs outstanding as of January 1, 2012	1,106,612
Granted	44,298
Vested	(195,496)
RSAs outstanding as of March 31, 2012	955,414

The restricted shares granted during the three month period ended March 31, 2012 had a total grant-date fair value of approximately $1.2 million, or $27.04 per share. As of March 31, 2012, the unrecognized compensation expense associated with all outstanding restricted share grants was approximately $9.8 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 following 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. Therefore, 524,500 RSUs were granted and were outstanding as of March 31, 2012. The unrecognized compensation expense associated with restricted share grants was approximately $5.1 million as of March 31, 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 month periods ended March 31, 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 month periods ended March 31, 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):

	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	Income	**Weighted Average Shares Outstanding**	**Earnings Per Share**	**Income**	**Weighted Average Shares Outstanding**	**Earnings Per Share**
Basic:						
Net income attributable to controlling interests and available to common stockholders	$ 9,829			$ 6,480		
Less: undistributed earnings allocated to unvested restricted shares	(334)			(213)		

Net income available to common stockholders	$	9,495	43,058,215	$	0.22	$	6,267	41,512,171	$	0.15
Diluted:										
Effect of dilutive securities:										
Add: Undistributed earnings allocated to restricted shares	$	334				$	213			