

CARDTRONICS INC
Form 10-Q
August 14, 2008

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**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, 2008

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.)

**3110 Hayes Road, Suite 300
Houston, TX**

(Address of principal executive offices)

77082

(Zip Code)

Registrant's telephone number, including area code: **(281) 596-9988**

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 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 8, 2008: 40,546,583

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

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	June 30, 2008 <i>(Unaudited)</i>	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,155	\$ 13,439
Accounts and notes receivable, net of allowance of \$465 and \$560 as of June 30, 2008 and December 31, 2007, respectively	21,405	23,248
Inventory	3,508	2,355
Restricted cash, short-term	12,061	5,900
Deferred tax asset, net	214	216
Prepaid expenses, deferred costs, and other current assets	14,086	11,627
Total current assets	56,429	56,785
Restricted cash	323	317
Property and equipment, net	176,088	163,912
Intangible assets, net	121,698	130,901
Goodwill	234,466	235,185
Prepaid expenses and other assets	8,201	4,185
Total assets	\$ 597,205	\$ 591,285
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,293	\$ 882
Current portion of capital lease obligations	853	1,147
Current portion of other long-term liabilities	18,878	16,201
Accounts payable	20,721	34,385
Accrued liabilities	65,851	70,524
Total current liabilities	107,596	123,139
Long-term liabilities:		
Long-term debt, net of current portion and related discounts	341,158	307,733
Capital lease obligations, net of current portion	598	982
Deferred tax liability, net	11,329	11,480
Asset retirement obligations	19,100	17,448
Other long-term liabilities	13,661	23,392
Total liabilities	493,442	484,174
Commitments and contingencies		

Stockholders' equity:

Common stock, \$0.0001 par value; 125,000,000 shares authorized;
45,531,082 and 43,571,956 shares issued as of June 30, 2008 and
December 31, 2007, respectively; 40,525,333 and 38,566,207 shares
outstanding as of June 30, 2008 and December 31, 2007, respectively

Subscriptions receivable (at face value)	4	4
	(128)	(229)
Additional paid-in capital	191,323	190,508
Accumulated other comprehensive loss, net	(808)	(4,518)
Accumulated deficit	(38,407)	(30,433)
Treasury stock; 5,005,749 shares at cost	(48,221)	(48,221)
Total stockholders' equity	103,763	107,111
Total liabilities and stockholders' equity	\$ 597,205	\$ 591,285

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
ATM operating revenues	\$ 121,505	\$ 73,964	\$ 236,567	\$ 145,620
Vcom operating revenues	1,363		2,598	
ATM product sales and other revenues	4,107	3,275	8,385	6,137
Total revenues	126,975	77,239	247,550	151,757
Cost of revenues:				
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization shown separately below. See <i>Note 1</i>)	91,862	56,344	178,694	111,080
Cost of Vcom operating revenues	1,739		4,008	
Cost of ATM product sales and other revenues	3,662	3,288	7,826	6,085
Total cost of revenues	97,263	59,632	190,528	117,165
Gross profit	29,712	17,607	57,022	34,592
Operating expenses:				
Selling, general, and administrative expenses	9,800	6,920	18,351	13,364
Depreciation and accretion expense	10,039	5,182	19,121	11,580
Amortization expense	4,501	2,372	9,004	4,858
Total operating expenses	24,340	14,474	46,476	29,802
Income from operations	5,372	3,133	10,546	4,790
Other expense (income):				
Interest expense, net	7,722	6,000	15,354	11,892
Amortization of deferred financing costs and bond discounts	530	360	1,038	716
Minority interest in subsidiary				(112)
Other	1,042	478	2,103	359
Total other expense	9,294	6,838	18,495	12,855
Loss before income taxes	(3,922)	(3,705)	(7,949)	(8,065)
Income tax expense (benefit)	(540)	1,910	25	937
Net loss	(3,382)	(5,615)	(7,974)	(9,002)
Preferred stock accretion expense		66		133
Net loss available to common stockholders	\$ (3,382)	\$ (5,681)	\$ (7,974)	\$ (9,135)
Net loss per common share basic and diluted	\$ (0.09)	\$ (0.41)	\$ (0.21)	\$ (0.65)

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Weighted average shares outstanding	basic				
and diluted		38,735,027	14,026,960	38,662,452	13,996,586

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (7,974)	\$ (9,002)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, accretion, and amortization expense	28,125	16,438
Amortization of deferred financing costs and bond discounts	1,038	716
Stock-based compensation expense	811	455
Deferred income taxes	(111)	831
Gain on sale of Winn-Dixie equity securities		(569)
Minority interest		(112)
Loss on disposal of assets	2,056	990
Other reserves and non-cash items	(3,643)	676
Changes in assets and liabilities, net of acquisitions:		
Decrease in accounts and notes receivable, net	1,534	925
(Increase) decrease in prepaid, deferred costs, and other current assets	(1,621)	356
(Increase) decrease in inventory	157	(1,187)
(Increase) decrease in other assets	394	(165)
Increase (decrease) in accounts payable and accrued liabilities	(10,335)	5,333
Decrease in other liabilities	(2,371)	(1,652)
Net cash provided by operating activities	8,060	14,033
Cash flows from investing activities:		
Additions to property and equipment	(43,090)	(23,912)
Proceeds from sale of property and equipment		3
Payments for exclusive license agreements and site acquisition costs	(497)	(817)
Additions to equipment to be leased to customers		(422)
Principal payments received under direct financing leases	17	13
Proceeds from sale of Winn-Dixie equity securities		3,950
Acquisition, net of cash acquired		876
Net cash used in investing activities	(43,570)	(20,309)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	76,236	25,039
Repayments of long-term debt and capital leases	(43,829)	(17,060)
Repayments of borrowings under bank overdraft facility, net	(3,881)	(2,597)
Payments received on subscriptions receivable	101	
Proceeds from exercises of stock options	286	46
Equity offering costs	(1,489)	
Debt issuance and modification costs	(54)	(15)

Net cash provided by financing activities	27,370	5,413
Effect of exchange rate changes on cash	(144)	(19)
Net decrease in cash and cash equivalents	(8,284)	(882)
Cash and cash equivalents at beginning of period	13,439	2,718
Cash and cash equivalents at end of period	\$ 5,155	\$ 1,836

Supplemental disclosure of cash flow information:

Cash paid for interest, including interest on capital leases	\$ 16,096	\$ 12,142
Cash paid for income taxes	\$ 220	\$ 27
Fixed assets financed with direct debt	\$	\$ 2,545

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) owns and operates approximately 28,700 automated teller machines (ATM) in all 50 states of the United States, 2,500 ATMs located throughout the United Kingdom, and 1,800 ATMs located throughout Mexico. 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.

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, 2007 (2007 Form 10-K), which includes a summary of the Company's significant accounting policies and other disclosures.

The financial statements as of June 30, 2008 and for the three and six month periods ended June 30, 2008 and 2007 are unaudited. The Consolidated Balance Sheet as of December 31, 2007 was derived from the audited balance sheet filed in the Company's 2007 Form 10-K. In management's opinion, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company's interim period results have been made. The results of operations for the three and six month periods ended June 30, 2008 and 2007 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 reclassifications that were made to conform to the current period presentation. Those reclassifications did not impact the Company's reported net loss 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 absorbs a majority of the losses or returns 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 minority interest. As of June 30, 2008 and December 31, 2007, the cumulative losses generated by Cardtronics Mexico and allocable to the minority interest stockholders exceeded the underlying equity amounts of the minority interest stockholders. Accordingly, all future losses generated by Cardtronics Mexico will be allocated 100% to the Company until such time that Cardtronics Mexico generates a cumulative amount of earnings sufficient to cover all excess losses allocable to the Company, or until such time that the minority interest stockholders contribute additional equity to Cardtronics Mexico in an amount sufficient to cover the losses. As of June 30, 2008, the cumulative amount of excess losses allocated to the Company totaled approximately \$0.6 million. Such amount is net of contributions of \$0.3 million made by the minority interest stockholders during 2007.

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.

Table of Contents**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 expenses related to ATMs and ATM-related assets.

The following table sets forth the amounts excluded from cost of ATM operating revenues and gross profit:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	<i>(In thousands)</i>			
Depreciation and accretion expenses related to ATMs and ATM-related assets	\$ 8,734	\$ 4,757	\$ 16,696	\$ 10,778
Amortization expense	4,501	2,372	9,004	4,858
Total depreciation, accretion, and amortization expenses excluded from cost of ATM operating revenues and gross profit	\$ 13,235	\$ 7,129	\$ 25,700	\$ 15,636

(2) Acquisitions**Acquisition of 7-Eleven Financial Services Business**

On July 20, 2007, the Company acquired substantially all of the assets of the financial services business of 7-Eleven, Inc. (the 7-Eleven Financial Services Business) for approximately \$137.3 million in cash (the 7-Eleven ATM Transaction). The 7-Eleven ATM Transaction included approximately 5,500 ATMs located in 7-Eleven, Inc. (7-Eleven) stores throughout the United States, of which approximately 2,000 were advanced-functionality financial self-service kiosks, referred to as Vcom terminals, that are capable of providing more sophisticated financial services, such as check-cashing, remote deposit capture (which is deposit taking at ATMs not located on a bank's premises using electronic imaging), money transfer, bill payment services, and other kiosk-based financial services (collectively, the Vcom Services).

The Company accounted for the 7-Eleven ATM Transaction pursuant to Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Accordingly, the Company allocated the total purchase consideration to the assets acquired and liabilities assumed based on their respective fair values as of the acquisition date. The purchase price allocation resulted in goodwill of approximately \$62.2 million, which is deductible for tax purposes.

Pro Forma Results of Operations. The Company's Consolidated Statements of Operations for the three and six month periods ended June 30, 2008 includes the results of operations of the 7-Eleven Financial Services Business. The following table presents the unaudited pro forma information combined results of operations of the Company and the acquired 7-Eleven Financial Services Business, after giving effect to certain pro forma adjustments, including the effects of the issuance of the Series B Notes (as defined in Note 8) and additional borrowings under its revolving credit facility, as amended, for the three and six month periods ended June 30, 2007. For additional information on these financing transactions, see Note 8. The unaudited pro forma financial results assume that the 7-Eleven ATM Transaction and the related financing transactions occurred on January 1, 2007.

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	<i>(In thousands, excluding per share amounts)</i>	
Revenues	\$ 115,301	\$ 231,340
Income from operations	3,266	10,086
Net loss available to common stockholders	(7,719)	(10,087)
Net loss per share basic and diluted	(0.55)	(0.72)

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This pro forma information is presented for illustrative purposes only and is not necessarily indicative of the actual results that would have occurred had those transactions been consummated on January 1, 2007. Additionally, the pro forma results for the six months ended June 30, 2007 include approximately \$4.2 million of placement fee revenues associated with the Vcom operations of the 7-Eleven Financial Services Business, which are not expected to recur in future periods. Furthermore, the pro forma results are not necessarily indicative of the future results to be expected for the consolidated operations.

Table of Contents**(3) Stock-Based Compensation**

The Company accounts for stock-based compensation arrangements under SFAS No. 123 (revised 2004), *Share-Based Payment*, which requires a company to record the grant date fair value of stock-based compensation arrangements, net of estimated forfeitures, as compensation expense on a straight-line basis over the underlying service periods of the related awards. The following table reflects the total stock-based compensation expense amounts included in the accompanying Consolidated Statements of Operations:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	<i>(In thousands)</i>			
Cost of ATM operating revenues	\$ 132	\$ 15	\$ 197	\$ 31
Selling, general, and administrative expenses	413	218	614	424
Total stock-based compensation expense	\$ 545	\$ 233	\$ 811	\$ 455

The increase in stock-based compensation expense during the three and six month periods ended June 30, 2008 was due to the Company's issuance of 1,640,250 shares of restricted stock and 153,000 stock options to certain of its employees during June 2008. Both the restricted shares and the stock options were granted under the Company's 2007 Stock Incentive Plan.

Restricted Shares. The restricted shares granted in June 2008 represent non-vested shares that will vest ratably over a four-year service period. These shares had a total grant-date fair value of \$14.2 million, or \$8.63 per share.

Compensation expense associated with the restricted stock grants totaled approximately \$181,000 during the three months ended June 30, 2008, and, based upon our estimates of forfeitures, there was approximately \$13.5 million of unrecognized compensation cost associated with these shares as of June 30, 2008, which will be recognized over the remaining vesting period. Prior to the second quarter restricted stock issuances, the Company had no restricted shares outstanding.

Options. A summary of the Company's outstanding stock options as of June 30, 2008 and changes during the six months ended June 30, 2008 are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as of January 1, 2008	4,960,041	\$ 7.78
Granted	153,000	\$ 8.96
Exercised	(318,876)	\$ 0.90
Forfeited	(130,156)	\$ 11.22
Cancelled	(406,367)	\$ 11.40
Options outstanding as of June 30, 2008	4,257,642	\$ 7.89
Options vested and exercisable as of June 30, 2008	2,858,718	\$ 6.21

The options granted in June 2008 had a total grant-date fair value of \$559,000, or \$3.65 per share.

Table of Contents**(4) Earnings per Share**

The Company reports its earnings per share in accordance with SFAS No. 128, *Earnings per Share*. In accordance with SFAS No. 128, 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 and six month periods ended June 30, 2008 and 2007, the Company incurred net losses 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. The anti-dilutive securities included outstanding stock options, restricted shares, and, for periods prior to their conversion in December 2007, the Company's Series B redeemable convertible preferred stock. The following is a summary of the potentially dilutive securities that have been excluded from the computation of diluted net loss per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Stock options	1,149,774	1,614,681	1,157,555	1,619,832
Restricted shares				10,979
Preferred stock		7,390,413		7,390,413
Total potentially dilutive securities	1,149,774	9,005,094	1,157,555	9,021,224

(5) Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting comprehensive income (loss) and its components in the financial statements. Total comprehensive income (loss) consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	<i>(In thousands)</i>			
Net loss	\$ (3,382)	\$ (5,615)	\$ (7,974)	\$ (9,002)
Unrealized gains on interest rate hedges, net of taxes	18,421	1,366	4,956	194
Foreign currency translation adjustments	162	2,660	(1,246)	2,500
Reclassifications of unrealized gains on available-for-sale securities, net of taxes				(498)
Total comprehensive income (loss)	\$ 15,201	\$ (1,589)	\$ (4,264)	\$ (6,806)

The significant increase in the total comprehensive income figure for the three month period ended June 30, 2008 was due to the increase in current and forecasted interest rates that occurred during the period, which resulted in a decline in the fair value of the liability associated with the Company's interest rate hedges. For additional information on the Company's interest rate hedges, see *Note 12*.

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

	June 30, 2008	December 31, 2007
	<i>(In thousands)</i>	
Unrealized losses on interest rate hedges	\$ (8,688)	\$ (13,644)
Foreign currency translation adjustments	7,880	9,126

Total accumulated other comprehensive loss	\$	(808)	\$	(4,518)
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The Company currently believes that the unremitted earnings of its foreign subsidiaries will be reinvested in the foreign countries in which those subsidiaries operate for an indefinite period of time. 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 reflected in the tables above. 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 these interest rate swaps as of June 30, 2008 or December 31, 2007, as management does not currently believe the Company will be able to realize the benefits associated with its net deferred tax asset positions.

Table of Contents**(6) 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 June 30, 2008 and December 31, 2007, as well as the changes in the net carrying amounts for the six months ended June 30, 2008, by geographic segment:

	U.S.	Goodwill U.K.	Mexico	U.S.	Trade Name U.K.	Total
			<i>(In thousands)</i>			
Balance as of December 31, 2007	\$ 150,445	\$ 84,050	\$ 690	\$ 200	\$ 4,015	\$ 239,400
Purchase price adjustments	6					6
Foreign currency translation adjustments		(717)	(8)		(35)	(760)
Balance as of June 30, 2008	\$ 150,451	\$ 83,333	\$ 682	\$ 200	\$ 3,980	\$ 238,646

Intangible Assets with Definite Lives

The following is a summary of the Company's intangible assets that are subject to amortization as of June 30, 2008:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	<i>(In thousands)</i>		
Customer and branding contracts/relationships	\$ 163,328	\$ (58,169)	\$ 105,159
Deferred financing costs	14,064	(5,030)	9,034
Exclusive license agreements	5,420	(2,137)	3,283
Non-compete agreements	105	(63)	42
Total	\$ 182,917	\$ (65,399)	\$ 117,518

(7) Accrued Liabilities

Accrued liabilities consisted of the following:

	June 30, 2008	December 31, 2007
	<i>(In thousands)</i>	
Accrued merchant settlement amounts	\$ 13,313	\$ 5,807
Accrued merchant fees	10,924	9,933
Accrued interest	10,609	11,257
Accrued armored fees	5,579	5,879
Accrued cash management fees	4,558	5,574
Accrued maintenance fees	3,844	6,970
Accrued compensation	2,740	3,832
Accrued ATM telecommunications costs	1,454	1,424
Accrued processing costs	1,454	1,477
Accrued property and sales taxes	1,123	446
Accrued interest rate swap payments	1,079	147
Accrued purchases	584	6,098

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Other accrued expenses	8,590	11,680
Total	\$ 65,851	\$ 70,524

Table of Contents**(8) Long-Term Debt**

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

	June 30, 2008	December 31, 2007
	<i>(In thousands)</i>	
Revolving credit facility	\$ 37,500	\$ 4,000
Senior subordinated notes due August 2013 (net of unamortized discounts of \$3.6 million as of June 30, 2008 and \$3.9 million as of December 31, 2007)	296,356	296,088
Other	8,595	8,527
 Total	 342,451	 308,615
Less current portion	1,293	882
 Total excluding current portion	 \$ 341,158	 \$ 307,733

Credit Facility

As of June 30, 2008, \$37.5 million of borrowings were outstanding under the Company's \$175.0 million revolving credit facility. Additionally, \$7.1 million in letters of credit had been posted under the facility in favor of the lessors under the ATM equipment leases that the Company assumed in connection with the 7-Eleven ATM Transaction. These letters of credit, which the lessors may draw upon in the event the Company fails to make payments under the leases, further reduced the Company's borrowing capacity under the facility. As of June 30, 2008, the Company's available borrowing capacity under the amended facility, as determined under the earnings before interest expense, income taxes, depreciation and accretion expense, and amortization expense (EBITDA) and interest expense covenants contained in the agreement, totaled approximately \$130.4 million. As of June 30, 2008, the Company was in compliance with all applicable covenants and ratios under the facility.

Senior Subordinated Notes

On July 20, 2007, the Company issued \$100.0 million 9.25% senior subordinated notes due 2013 Series B (the Series B Notes) pursuant to Rule 144A of the Securities Act of 1933, as amended. In conjunction with this issuance, the Company entered into a registration rights agreement with the bondholders, pursuant to which the Company was required to either (1) register the Series B Notes with the SEC on or before July 14, 2008 (the Effectiveness Target Date) and successfully complete an exchange offer with respect to the Series B Notes within 30 days following the Effectiveness Target Date or (2) be subject to higher interest rates on the Series B Notes in subsequent periods. On June 10, 2008, the Series B Notes were successfully registered with the SEC, and on July 18, 2008, the Company successfully completed its exchange offer. The form and terms of the Series B Notes are the same as the form and terms of the Company's \$200.0 million senior subordinated notes due 2013 (the Series A Notes). As of June 30, 2008, the Company was in compliance with all applicable covenants required under both the \$200.0 million Series A Notes and the \$100.0 million Series B Notes.

(9) Asset Retirement Obligations

The Company accounts for asset retirement obligations in accordance with SFAS No. 143, *Asset Retirement Obligations*. Asset retirement obligations consist primarily of deinstallation costs of the ATM and the 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. In accordance with SFAS No. 143, for each group of ATMs, the Company has recognized the fair value of a liability for an asset retirement obligation and capitalized that cost as part of the cost basis of the related asset. The related assets are being depreciated on a straight-line basis over the estimated useful lives of the underlying ATMs, and the related liabilities are being accreted to their full value over the same period of time.

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The following table is a summary of the changes in Company's asset retirement obligation liability for the six months ended June 30, 2008 (*in thousands*):

Asset retirement obligation as of January 1, 2008	\$ 17,448
Additional obligations	2,622
Accretion expense	826
Payments	(1,527)
Change in estimates	(265)
Foreign currency translation adjustments	(4)
Asset retirement obligation as of June 30, 2008	\$ 19,100

The change in estimates during the six months ended June 30, 2008 represents the write-off of residual liability amounts during the first quarter of 2008 associated with a portfolio of ATMs previously installed at one of the Company's merchant customers' locations. As the entire portfolio of machines was deinstalled in conjunction with the Company's Triple-DES security upgrade efforts in 2007 and 2008, the Company no longer has any further deinstallation obligations associated with the previously-installed ATMs. The amount shown as a change in estimates represents the difference in the costs that the Company originally estimated it would incur to deinstall the ATMs and the actual costs incurred on the deinstallations.

(10) Other Liabilities

Other liabilities consisted of the following:

	June 30, 2008	December 31, 2007
		<i>(In thousands)</i>
<i>Current Portion of Other Long-Term Liabilities:</i>		
Obligations associated with acquired unfavorable contracts	\$ 8,046	\$ 8,158
Interest rate swaps	7,528	4,489
Deferred revenue	1,665	1,789
Other	1,639	1,765
Total	\$ 18,878	\$ 16,201
 <i>Other Long-Term Liabilities:</i>		
Interest rate swaps	\$ 4,640	\$ 9,155
Obligations associated with acquired unfavorable contracts	3,667	7,626
Deferred revenue	2,818	3,380
Other long-term liabilities	2,536	3,231
Total	\$ 13,661	\$ 23,392

(11) Commitments and Contingencies***Legal and Other Regulatory Matters***

In June 2006, Duane Reade, Inc. ("Customer "), one of the Company's merchant customers, filed a complaint in the New York State Supreme Court alleging that the Company had breached its ATM operating agreement with the Customer by failing to pay the Customer the proper amount of fees under the agreement. The Customer is claiming that it is owed no less than \$600,000 in lost revenues, exclusive of interest and costs, and projects that additional damages will accrue to it at a rate of approximately \$100,000 per month, exclusive of interest and costs. As the term of the

Company's operating agreement with the Customer extends to December 2014, the Customer's claims could exceed \$12.0 million. In response to a motion for summary judgment filed by the Customer and a cross-motion filed by the Company, the New York State Supreme Court ruled in September 2007 that the Company's interpretation of the ATM operating agreement was the appropriate interpretation and expressly rejected the Customer's proposed interpretations. The Customer appealed this ruling, and on August 5, 2008, the New York State Court of Appeals remanded the case back to the New York State Supreme Court for trial on the merits. Notwithstanding that decision, the Company believes that the ultimate resolution of this dispute will not have a material adverse impact on its financial condition or results of operations.

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The Company has recently been made aware of a security incident affecting a previous third-party service provider and, in turn, potentially affecting certain of the Company's ATMs located in the stores of one of the Company's merchant customers in the United States. In May 2008, the Company received a notification from a financial institution indicating that it believes approximately \$3.0 million in fraudulent cash withdrawals have occurred on that financial institution's network of ATMs as a result of the security incident. The Company also understands that approximately \$1.7 million in cash has been recovered and that some or all of these recovered funds may be applied to the financial institution's losses. In any event, based on information received to date, the Company does not believe that the security incident referred to above caused any cardholder personal identification numbers (PINs) to be compromised and thus does not believe that the fraudulent cash withdrawals were associated with the security incident. The Company is working closely with this financial institution to try to identify the source of the financial institution's recent PIN-based losses. To the extent additional notifications are received by, or loss claims are made against, the Company related to this security incident, the Company intends to work through its normal process with its insurance carrier and its partners to determine the appropriate means of addressing those notifications or claims. In the event the Company is unsuccessful in its efforts to effectively address any such notifications or claims, and it is determined that the Company is liable for any losses that are deemed to have resulted from the security incident, the Company's financial results could be negatively impacted.

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 effect on the Company's financial condition or results of operations.

Capital and Operating Leases

Capital Lease Obligations. As a result of the 7-Eleven ATM Transaction, the Company assumed responsibility for certain capital lease contracts that will expire at various times through June 2010. Upon the fulfillment of certain payment obligations related to the capital leases, ownership of the ATMs transfers to the Company. As of June 30, 2008, approximately \$1.5 million of capital lease obligations were included within the Company's Consolidated Balance Sheet.

Operating Lease Obligations. In addition to the capital leases assumed in connection with the 7-Eleven ATM Transaction, the Company also assumed certain operating leases. In conjunction with its purchase price allocation related to the 7-Eleven ATM Transaction, the Company recorded approximately \$8.7 million of other liabilities (current and long-term) to value certain unfavorable equipment operating leases assumed as part of the acquisition. These liabilities are being amortized over the remaining terms of the underlying leases, the majority of which expire in late 2009, and serve to reduce ATM operating lease expense amounts to the fair value of these services as of the date of the acquisition. During the three and six month periods ended June 30, 2008, the Company recognized approximately \$0.9 million and \$1.8 million, respectively, in lease expense reductions associated with the amortization of these liabilities, and the remaining balance as of June 30, 2008 was \$5.2 million. Upon the expiration of the operating leases, the Company will be required to renew the lease contracts, enter into new lease contracts or purchase new or used ATMs to replace the leased equipment.

Related Letters of Credit. Additionally, in connection with the 7-Eleven ATM Transaction, the Company posted \$7.5 million in letters of credit related to these operating and capital leases upon which the lessors can draw in the event the Company fails to make scheduled payments under the leases. These letters of credit, which are reduced periodically as payments are made under the leases, will be released upon the expiration of the leases. As of June 30, 2008, the total outstanding balance under these letters of credit was \$7.1 million.

Other Commitments

Asset Retirement Obligations. The Company's asset retirement obligations consist primarily of deinstallation costs of the ATM and the 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 \$19.1 million accrued for these liabilities as of June 30, 2008. For additional information on the Company's asset retirement obligations, see *Note 9*.

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As a result of its variable-rate debt and ATM cash management activities, the Company is exposed to changes in interest rates (the London Interbank Offered Rate (LIBOR) and the federal funds effective rate in the United States, LIBOR in the United Kingdom, and the Mexican Interbank Rate in Mexico). It is the Company's policy to limit the variability of a portion of its expected future interest payments as a result of changes in the underlying rates by utilizing certain types of derivative financial instruments.

To meet the above objective, the Company has entered into several LIBOR-based and federal funds effective rate-based interest rate swaps to fix the interest rate paid on \$550.0 million of the Company's current and anticipated outstanding ATM cash balances in the United States. The swaps in place as of June 30, 2008 serve to fix the interest rate paid on the following notional amounts for the periods identified:

Notional Amount (In thousands)	Weighted Average Fixed Rate	Period
\$ 550,000	4.61%	July 1, 2008 – December 31, 2008
\$ 550,000	4.30%	January 1, 2009 – December 31, 2009
\$ 550,000	4.11%	January 1, 2010 – December 31, 2010
\$ 400,000	3.72%	January 1, 2011 – December 31, 2011
\$ 200,000	3.96%	January 1, 2012 – December 31, 2012

As of June 30, 2008 and December 31, 2007, the Company had a net liability of \$8.7 million and \$13.6 million, respectively, recorded in its Consolidated Balance Sheets related to the above interest rate swaps, which represented the fair value of the agreements based on third-party quotes for similar instruments with the same terms and conditions, as the instruments are required to be carried at fair value. These swaps have been classified as cash flow hedges pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

Accordingly, changes in the fair values of the swaps have been reported in accumulated other comprehensive loss in the accompanying Consolidated Balance Sheets. 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 these interest rate swaps as of June 30, 2008 or December 31, 2007, as management does not currently believe that the Company will be able to realize the benefits associated with its net deferred tax asset positions.

Net amounts paid or received under the swaps are recorded as adjustments to the Company's Cost of ATM operating revenues in the accompanying Consolidated Statements of Operations. During the three and six month periods ended June 30, 2008 and 2007, gains or losses incurred as a result of ineffectiveness associated with the Company's interest rate swaps were immaterial.

As of June 30, 2008, the Company has not entered into any derivative financial instruments to hedge its variable interest rate exposure in the United Kingdom or Mexico.

(13) Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Income tax expense (benefit)	\$ (540)	\$ 1,910	\$ 25	\$ 937
Effective tax rate	13.8%	(51.6)%	(0.3)%	(11.6)%

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The Company computes its quarterly income tax provision amounts under the effective tax rate method based on applying an anticipated effective tax rate in each major tax jurisdiction, if and when applicable, to the pre-tax book income or loss amounts generated in the jurisdictions. During the three and six month periods ended June 30, 2008, the Company increased its valuation allowance by approximately \$0.8 million and \$1.9 million, respectively. Such increases were due to the Company's determination that it is more likely than not that it will not be able to realize the benefit associated with the net deferred tax asset balance related to its domestic operations. The negative effective tax rates reflected above were due to the domestic valuation allowance discussed above, the relative mix of pre-tax loss amounts in the Company's foreign and domestic jurisdictions, and the fact that the Company is not currently recognizing any tax benefits associated with its Mexico operations. Furthermore, the Company was in a taxable income position with respect to its domestic state income taxes but in a taxable loss position with respect to its domestic federal income taxes, which also contributed to the overall negative effective tax rates for certain periods reflected above.

The Company is currently not recording any valuation allowances related to the deferred tax assets associated with its United Kingdom operations as the Company currently believes it is more likely than not that it will have sufficient taxable income in future periods, including the reversal of existing deferred tax liabilities, to utilize those assets. However, the Company's United Kingdom operations have generated significant pre-tax book losses during the six months ended June 30, 2008. If such losses were to continue through the remainder of 2008 and into 2009, the Company may be required to establish a valuation allowance for a portion, if not all, of any net deferred tax asset balance associated with such operations.

(14) Segment Information

As of June 30, 2008, the Company's operations consisted of its United States, United Kingdom, Mexico, and Advanced Functionality segments. While each of these segments provides similar ATM-related services, each segment is managed separately, as they require different marketing and business strategies. Furthermore, the Company previously determined that the advanced-functionality services provided through the acquired Vcom units exhibited different economic characteristics than the traditional ATM services provided by its other three segments, in large part due to the anticipated losses associated with providing advanced-functionality services and the fact that these operations will be managed separately until they can achieve break-even status.

Management uses earnings before interest expense, income taxes, depreciation and accretion expense, and amortization expense to assess the operating results and effectiveness of its business segments. Management believes EBITDA is useful because it allows them to more effectively evaluate the Company's and its business segments operating performance and compare the results of its operations from period to period without regard to its financing methods or capital structure. Additionally, the Company excludes depreciation, accretion, and amortization expense as these amounts can vary substantially from company to company within its industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired. 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. Therefore, 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 GAAP. Below is a reconciliation of EBITDA to net loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	<i>(In thousands)</i>		<i>(In thousands)</i>	
EBITDA	\$ 18,870	\$ 10,209	\$ 36,568	\$ 20,981
Depreciation and accretion expense	10,039	5,182	19,121	11,580
Amortization expense	4,501	2,372	9,004	4,858
Interest expense, net, including amortization of deferred financing costs and bond discounts	8,252	6,360	16,392	12,608

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Income tax expense	(540)	1,910	25	937
Net loss	\$ (3,382)	\$ (5,615)	\$ (7,974)	\$ (9,002)

	For the Three Months Ended June 30, 2008					
	United		Advanced			
	United States	Kingdom	Mexico	Functionality	Eliminations	Total
			<i>(In thousands)</i>			
Revenue from external customers	\$ 102,688	\$ 19,701	\$ 3,223	\$ 1,363	\$	\$ 126,975
Intersegment revenues	525				(525)	
Cost of revenues	75,603	17,541 ⁽¹⁾	2,745	1,899	(525)	97,263
Selling, general, and administrative expenses	7,884	1,538	277	101		9,800
EBITDA	19,320	138 ⁽¹⁾	49	(637)		18,870
Depreciation and accretion expense	6,583	3,055	406		(5)	10,039
Amortization expense	3,952	536	13			4,501
Interest expense, net	6,607	1,432	213			8,252
Capital expenditures, excluding acquisitions ^{(2) (3)}	6,076	8,679	2,696	39		17,490

For the Six Months Ended June 30, 2008

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United**

	United States	Kingdom	Mexico <i>(In thousands)</i>	Eliminations	Total
Revenue from external customers	\$ 121,927	\$ 28,340	\$ 1,490	\$	\$ 151,757
Intersegment revenue	82			(82)	
Cost of revenues	95,603	20,310 ⁽¹⁾	1,302	(50)	117,165
Selling, general, and administrative expenses	10,643	2,037	617	67	13,364
EBITDA	15,738	5,783 ⁽¹⁾	(441)	(99)	20,981
Depreciation and accretion expense	8,530	3,010	69	(29)	11,580
Amortization expense	4,004	829	25		4,858
Interest expense, net	10,484	2,032	92		12,608
Capital expenditures, excluding acquisitions ⁽²⁾ ⁽³⁾	12,110	11,224	1,395		24,729
Additions to equipment to be leased to customers			422		422

- (1) During the second quarter of 2008, we experienced a significant increase in transactions conducted on our ATMs in the United Kingdom with counterfeit credit cards. Due to a delay in the completion of our Europay MasterCard Visa (EMV) security standard certification with the network whose

brand was on those cards, we are liable under the network's rules for the resulting claims, which we estimate could total \$1.3 million. As a result, our cost of revenues and EBITDA were negatively impacted by the \$1.3 million charge during the three and six month periods ended June 30, 2008.

Additionally, we incurred a similar charge in the amount of \$0.4 million during the second quarter of 2007, which negatively impacted our United Kingdom segment's costs of revenues and EBITDA for the three and six months ended June 30, 2007.

- (2) Capital expenditure amounts include payments made for exclusive license agreements and site acquisition costs.

(3)

Capital
expenditure
amounts for
Mexico are
reflected gross
of any minority
interest
amounts.

Identifiable Assets:

	June 30, 2008	December 31, 2007
	<i>(In thousands)</i>	
United States	\$ 405,802	\$ 409,120
United Kingdom	170,505	163,464
Mexico	13,364	12,337
Advanced Functionality	7,534	6,364
Total	\$ 597,205	\$ 591,285

(15) New Accounting Pronouncements

Adopted

Fair Value Measurements. In September&nb