

CARDTRONICS INC
Form 10-Q
July 30, 2014

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, 2014

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 76-0681190
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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3250 Briarpark Drive, Suite 400 77042
Houston, TX (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (832) 308-4000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

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

Common Stock, par value: \$0.0001 per share. Shares outstanding on July 25, 2014: 44,472,002

CARDTRONICS, INC.

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

PART I.
FINANCIAL
INFORMATION

Item 1. Financial
Statements

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

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 61,364	\$ 86,939
Accounts and notes receivable, net of allowance of \$807 and \$571 as of June 30, 2014 and December 31, 2013, respectively	62,866	58,274
Inventory, net	6,919	5,302
Restricted cash	27,545	14,896
Current portion of deferred tax asset, net	20,397	21,202
Prepaid expenses, deferred costs, and other current assets	30,229	20,159
Total current assets	209,320	206,772
Property and equipment, net	284,167	270,966
Intangible assets, net	145,254	155,276
Goodwill	412,964	404,491
Deferred tax asset, net	12,119	9,680
Prepaid expenses, deferred costs, and other noncurrent assets	7,716	9,018
Total assets	\$ 1,071,540	\$ 1,056,203
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 615	\$ 1,289
Current portion of other long-term liabilities	36,555	35,597

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Accounts payable	21,199	38,981
Accrued liabilities	150,124	137,776
Current portion of deferred tax liability, net	—	1,152
Total current liabilities	208,493	214,795
Long-term liabilities:		
Long-term debt	473,613	489,225
Asset retirement obligations	64,881	60,665
Deferred tax liability, net	5,555	5,668
Other long-term liabilities	42,392	38,736
Total liabilities	794,934	809,089
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.0001 par value; 125,000,000 shares authorized; 51,477,361 and 51,207,849 shares issued as of June 30, 2014 and December 31, 2013, respectively; 44,472,905 and 44,375,952 shares outstanding as of June 30, 2014 and December 31, 2013, respectively	5	5
Additional paid-in capital	339,842	330,862
Accumulated other comprehensive loss, net	(69,165)	(72,954)
Retained earnings	105,230	81,677
Treasury stock: 7,004,456 and 6,831,897 shares at cost as of June 30, 2014 and December 31, 2013, respectively	(96,824)	(90,679)
Total parent stockholders' equity	279,088	248,911
Noncontrolling interests	(2,482)	(1,797)
Total stockholders' equity	276,606	247,114
Total liabilities and stockholders' equity	\$ 1,071,540	\$ 1,056,203

The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
ATM operating revenues	\$ 252,052	\$ 203,599	\$ 490,191	\$ 396,959
ATM product sales and other revenues	7,977	4,385	14,910	8,763
Total revenues	260,029	207,984	505,101	405,722
Cost of revenues:				
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization of intangible assets shown separately below. See Note 1)	163,380	133,482	323,139	263,042
Cost of ATM product sales and other revenues	7,754	4,228	14,564	8,357
Total cost of revenues	171,134	137,710	337,703	271,399
Gross profit	88,895	70,274	167,398	134,323
Operating expenses:				
Selling, general, and administrative expenses	27,926	18,932	52,453	37,921
Acquisition-related expenses	7,642	1,184	10,729	4,006
Depreciation and accretion expense	19,597	15,881	37,943	32,166
Amortization of intangible assets	8,465	6,081	16,682	11,829
Loss on disposal of assets	316	157	584	360
Total operating expenses	63,946	42,235	118,391	86,282
Income from operations	24,949	28,039	49,007	48,041
Other expense (income):				
Interest expense, net	5,328	5,059	10,744	10,125
Amortization of deferred financing costs and note discount	2,762	231	5,447	460
Redemption costs for early extinguishment of debt	699	—	1,353	—
Other income	(5,261)	(2,050)	(5,230)	(2,471)
Total other expense	3,528	3,240	12,314	8,114
Income before income taxes	21,421	24,799	36,693	39,927
Income tax expense	8,015	10,034	13,788	16,014
Net income	13,406	14,765	22,905	23,913
Net loss attributable to noncontrolling interests	(583)	(562)	(649)	(844)
Net income attributable to controlling interests and available to common stockholders	\$ 13,989	\$ 15,327	\$ 23,554	\$ 24,757

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Net income per common share – basic	\$ 0.31	\$ 0.34	\$ 0.53	\$ 0.54
Net income per common share – diluted	\$ 0.31	\$ 0.33	\$ 0.52	\$ 0.54
Weighted average shares outstanding – basic	44,324,747	44,394,230	44,270,363	44,321,069
Weighted average shares outstanding – diluted	44,830,978	44,615,021	44,800,298	44,547,851

The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income	\$ 13,406	\$ 14,765	\$ 22,905	\$ 23,913
Unrealized gains (losses) on interest rate swap contracts, net of deferred income tax expense (benefit) of \$(1,012) and \$10,545 for the three months ended June 30, 2014 and 2013, respectively, and \$(93) and \$13,981 for the six months ended June 30, 2014 and 2013, respectively	(1,566)	17,548	(380)	23,251
Foreign currency translation adjustments	3,429	(497)	4,169	(4,537)
Other comprehensive income	1,863	17,051	3,789	18,714
Total comprehensive income	15,269	31,816	26,694	42,627
Less: comprehensive loss attributable to noncontrolling interests	(586)	(597)	(664)	(819)
Comprehensive income attributable to controlling interests	\$ 15,855	\$ 32,413	\$ 27,358	\$ 43,446

The accompanying notes are an integral part of these consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 22,905	\$ 23,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion, and amortization of intangible assets	54,625	43,995
Amortization of deferred financing costs and note discount	5,447	460
Stock-based compensation expense	6,917	5,744
Deferred income taxes	(2,734)	3,584
Loss on disposal of assets	584	360
Other reserves and non-cash items	1,693	2,689
Changes in assets and liabilities:		
Increase in accounts and note receivable, net	(5,308)	(3,538)
(Increase) decrease in prepaid, deferred costs, and other current assets	(8,131)	9,945
Increase in inventory	(2,510)	(1,649)
Decrease (increase) in other assets	3,460	(1,327)
(Decrease) increase in accounts payable	(16,322)	2,398
Decrease in accrued liabilities	(2,623)	(1,532)
Decrease in other liabilities	(1,132)	(4,688)
Net cash provided by operating activities	56,871	80,354
Cash flows from investing activities:		
Additions to property and equipment	(41,753)	(26,422)
Payments for exclusive license agreements, site acquisition costs, and other intangible assets	-	(3,433)
Acquisitions, net of cash acquired	(8,805)	(29,610)
Net cash used in investing activities	(50,558)	(59,465)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	-	85,600
Repayments of long-term debt and capital leases	(22,991)	(104,846)
Repayments of borrowings under bank overdraft facility, net	(1,534)	—
Debt issuance, modification and redemption costs	(2,676)	—
Payment of contingent consideration	(518)	(750)
Proceeds from exercises of stock options	141	459
Excess tax benefit from stock-based compensation expense	1,998	10,832

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Repurchase of capital stock	(6,145)	(3,821)
Net cash used in financing activities	(31,725)	(12,526)
Effect of exchange rate changes on cash	(163)	117
Net (decrease) increase in cash and cash equivalents	(25,575)	8,480
Cash and cash equivalents as of beginning of period	86,939	13,861
Cash and cash equivalents as of end of period	\$ 61,364	\$ 22,341
Supplemental disclosure of cash flow information:		
Cash paid for interest, including interest on capital leases	\$ 11,645	\$ 10,132
Cash paid for income taxes	\$ 18,114	\$ 2,550

The accompanying notes are an integral part of these consolidated financial statements.

CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) General and Basis of Presentation

General

Cardtronics, Inc., along with its wholly- and majority-owned subsidiaries (collectively, the "Company") provides convenient consumer financial services through its network of automated teller machines ("ATMs") and multi-function financial services kiosks. As of June 30, 2014, the Company provided services to over 83,600 devices across its portfolio, which included approximately 66,500 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 12,000 devices throughout the United Kingdom ("U.K."), approximately 900 devices throughout Germany, approximately 2,000 devices throughout Canada, and approximately 2,200 devices throughout Mexico. In the U.S., certain of the Company's devices are 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 83,600 devices are approximately 14,700 devices for which the Company provides various forms of managed services solutions, which may include services such as transaction processing, monitoring, maintenance, cash management, communications, and customer service.

Through its network, the Company provides ATM management and equipment-related services (typically under multi-year contracts) to large, nationally and regionally-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., PNC Bank, N.A., Frost Bank, The Bank of Nova Scotia ("Scotiabank") in Canada, Mexico, and Puerto Rico, and Grupo Financiero Banorte, S.A. de C.V. in Mexico. As of June 30, 2014, approximately 21,300 of the Company's 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 (“Allpoint”), the largest surcharge-free ATM network within the U.S. (based on the number of participating ATMs). Allpoint, which has more than 56,100 participating ATMs globally, provides surcharge-free ATM access to customers of participating financial institutions that lack a significant ATM network in exchange for either a fixed monthly fee per cardholder or a set fee per transaction that is paid by the financial institutions who are members of the network. Allpoint includes a majority of the Company’s ATMs in the U.S., U.K., and Mexico, and approximately a quarter of the Company’s ATMs in Canada. 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 or per transaction 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, 2013 (the "2013 Form 10-K"), which includes a summary of the Company's significant accounting policies and other disclosures.

The financial statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 are unaudited. The Consolidated Balance Sheet as of December 31, 2013 was derived from the audited balance sheet filed in the 2013 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. Certain balances have been reclassified in the December 31, 2013 audited financial statements to present information consistently between periods. During the three and six months ended June 30, 2014, the Company changed its accounting policy related to the presentation of certain upfront merchant payments by reclassifying such payments from Intangible Assets to the Other Assets line item on the consolidated balance sheet. Prior period amounts have been reclassified to conform to this presentation. The results of operations for the three and six months ended June 30, 2014 and 2013 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

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 of intangible assets related to ATMs and ATM-related assets. The following table sets forth the amounts excluded from Cost of ATM operating revenues and Gross profit for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Depreciation and accretion expenses related to ATMs and ATM-related assets	\$ 16,266	\$ 13,858	\$ 31,855	\$ 28,136
Amortization of intangible assets	8,465	6,081	16,682	11,829
Total depreciation, accretion, and amortization of intangible assets excluded from Cost of ATM operating revenues and Gross profit	\$ 24,731	\$ 19,939	\$ 48,537	\$ 39,965

(2) Acquisitions

Acquisition of the Cardpoint ATM Portfolio

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On August 7, 2013, the Company completed the acquisition of Cardpoint Limited (“Cardpoint”) for approximately £105.4 million (\$161.8 million) in cash. As a result of the Cardpoint acquisition, the Company significantly increased the size of its European operations by adding approximately 7,100 ATMs in the U.K. and approximately 800 ATMs in Germany, substantially all of which were owned by Cardpoint. The Company has preliminarily allocated purchase consideration to the assets acquired and expects to complete its purchase accounting for this acquisition during the third quarter of 2014.

Pro Forma Results of Operations

The following table presents the unaudited pro forma combined results of operations of the Company and the acquired Cardpoint portfolios for the three and six months ended June 30, 2013, after giving effect to certain pro forma adjustments including: (i) amortization of acquired intangible assets, (ii) the impact of certain fair value adjustments such as depreciation on the acquired property and equipment, and (iii) interest expense adjustment for historical long-term debt of Cardpoint that was repaid and interest expense on additional borrowings by the Company to fund the acquisition.

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	As Reported	Pro Forma	As Reported	Pro Forma
	(In thousands, excluding per share amounts)			
Total revenues	\$ 207,984	\$ 233,920	\$ 405,722	\$ 457,594
Net income attributable to controlling interests and available to common stockholders	15,327	16,094	24,757	25,374
Earnings per share – basic	\$ 0.34	\$ 0.35	\$ 0.54	\$ 0.56
Earnings per share – diluted	\$ 0.33	\$ 0.35	\$ 0.54	\$ 0.55

The unaudited pro forma financial results do not reflect the impact of other acquisitions consummated by the Company during 2013 and 2014, as the impact would not be material to its condensed consolidated results of operations. The unaudited pro forma financial results assume that the Cardpoint acquisition occurred on January 1, 2013, 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

On February 6, 2014, the Company acquired the majority of the assets of Automated Financial, LLC (“Automated Financial”), an Arizona-based provider of ATM services to approximately 2,100 ATMs consisting primarily of merchant-owned ATMs. The Automated Financial acquisition did not have a material effect on the Company's consolidated results of operations during the three and six months ended June 30, 2014.

(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 periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Cost of ATM operating revenues	\$ 353	\$ 207	\$ 567	\$ 412
Selling, general, and administrative expenses	3,346	2,372	6,350	5,332
Total stock-based compensation expense	\$ 3,699	\$ 2,579	\$ 6,917	\$ 5,744

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

Restricted Stock Awards. The number of the Company's outstanding Restricted Stock Awards ("RSAs") as of June 30, 2014, and changes during the six months ended June 30, 2014, are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
RSAs outstanding as of January 1, 2014	375,498	\$ 18.42
Granted	—	\$ —
Vested	(218,999)	\$ 14.00
Forfeited	(15,664)	\$ 27.28
RSAs outstanding as of June 30, 2014	140,835	\$ 24.32

As of June 30, 2014, the unrecognized compensation expense associated with all outstanding RSAs was approximately \$2.1 million, which will be recognized on a straight-line basis over a remaining weighted-average vesting period of approximately 2.1 years.

Restricted Stock Units. In the first quarter of each year since 2011, the Company granted restricted stock units ("RSUs") under its Long Term Incentive Plan ("LTIP"), which is an annual equity award program 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") on an annual basis, and are based on the Company's achievement of certain performance levels during the calendar year of its grant. The majority of these grants have both a performance-based and a service-based vesting schedule ("Performance-RSUs"), and the Company recognizes the related compensation expense based on the estimated performance levels that management believes will ultimately be met. Starting with the grants made in 2013, a portion of the awards have a service-based vesting schedule only ("Time-RSUs"), for which the associated expense is recognized ratably over four years. Performance-RSUs and Time-RSUs are convertible into the Company's common stock after the passage of the vesting periods, which are 24, 36, and 48 months from January 31 of the grant year, at the rate of 50%, 25%, and 25%, respectively. Performance-RSUs will be earned only if the Company achieves certain performance levels. Although the RSUs are not considered to be earned and outstanding until at least the minimum performance metrics are met, the Company recognizes the related compensation expense over the requisite service period (or to an employee's qualified retirement date, if earlier) using a graded vesting methodology. RSUs are also granted outside of the LTIP, with or without performance-based vesting requirements, in accordance with the terms of the 2007 Stock Incentive Plan.

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The number of the Company's non-vested RSUs as of June 30, 2014, and changes during the six months ended June 30, 2014, are presented below:

	Number of Units	Weighted Average Grant Date Fair Value
Non-vested RSUs as of January 1, 2014	733,235	\$ 25.26
Granted	398,697	\$ 31.75
Vested	(253,412)	\$ 21.72
Forfeited	(46,187)	\$ 26.16
Non-vested RSUs as of June 30, 2014	832,333	\$ 29.40

The above table only includes earned RSUs; therefore, the Performance-RSUs granted in 2014 but not yet earned are not included, but the Time-RSUs are included as granted.