CARDTRONICS INC
Form 10-Q
August 06, 2010
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 June 30, 2010
	or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _______ to _______

Commission File Number: 001-33864

CARDTRONICS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0681190 (I.R.S. Employer Identification No.)
3250 Briarpark Drive, Suite 400 Houston, TX (Address of principal executive offices)	77042 (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

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

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

Large accelerated filer £	Accelerated filer R	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 August 4, 2010: 41,961,459

CARDTRONICS, INC.

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When we refer to "us," "we," "our," "ours" or "the Company," 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, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$40,089	$10,449
Accounts and notes receivable, net of allowance of $297 and $560 as of June 30, 2010 and December 31, 2009, respectively	20,009	27,700
Inventory	2,093	2,617
Restricted cash, short-term	3,060	3,452
Prepaid expenses, deferred costs, and other current assets	10,450	8,850
Total current assets	75,701	53,068
Property and equipment, net	148,403	147,348
Intangible assets, net	79,877	89,036
Goodwill	164,121	165,166
Prepaid expenses, deferred costs, and other assets	4,545	5,786
Total assets	$472,647	$460,404
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt and notes payable	$2,481	$2,122
Capital lease obligations	—	235
Current portion of other long-term liabilities	24,599	26,047
Accounts payable	19,403	12,904
Accrued liabilities	51,379	57,583
Current portion of deferred tax liability, net	3,153	3,121
Total current liabilities	101,015	102,012
Long-term liabilities:		
Long-term debt, net of related discounts	304,560	304,930
Deferred tax liability, net	14,215	12,250
Asset retirement obligations	25,341	24,003
Other long-term liabilities	29,647	18,499
Total liabilities	474,778	461,694
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $0.0001 par value; 125,000,000 shares authorized; 47,235,439 and 46,238,028 shares issued as of June 30, 2010 and December 31, 2009, respectively; 41,746,143 and 40,900,532 shares outstanding as of June 30, 2010 and December 31, 2009, respectively	4	4

Additional paid-in capital	203,571	200,323
Accumulated other comprehensive loss, net	(72,541)	(57,618)
Accumulated deficit	(84,754)	(96,922)
Treasury stock; 5,489,296 and 5,337,496 shares at cost as of June 30, 2010 and December 31, 2009, respectively	(50,342)	(48,679)
Total parent stockholders' deficit	(4,062)	(2,892)
Noncontrolling interests	1,931	1,602
Total stockholders' deficit	(2,131)	(1,290)
Total liabilities and stockholders' deficit	$472,647	$460,404

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues:				
ATM operating revenues	$130,560	$121,362	$256,247	$234,942
ATM product sales and other revenues	2,388	3,286	4,477	5,051
Total revenues	132,948	124,648	260,724	239,993
Cost of revenues:				
Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization shown separately below. See Note 1)	87,414	83,975	173,293	166,204
Cost of ATM product sales and other revenues	2,314	3,153	4,507	4,967
Total cost of revenues	89,728	87,128	177,800	171,171
Gross profit	43,220	37,520	82,924	68,822
Operating expenses:				
Selling, general, and administrative expenses	10,272	10,584	21,415	21,439
Depreciation and accretion expense	10,264	9,935	20,486	19,574
Amortization expense	3,765	4,504	7,744	9,031
Loss on disposal of assets	1,095	1,676	1,472	3,784
Total operating expenses	25,396	26,699	51,117	53,828
Income from operations	17,824	10,821	31,807	14,994
Other expense (income):				
Interest expense, net	7,314	7,644	14,632	15,355
Amortization of deferred financing costs and bond discounts	642	603	1,272	1,171
Other (income) expense	(332)	(1,041)	34	(1,127)
Total other expense	7,624	7,206	15,938	15,399
Income (loss) before income taxes	10,200	3,615	15,869	(405)
Income tax expense	1,952	1,016	3,391	2,033
Net income (loss)	8,248	2,599	12,478	(2,438)
Net income attributable to noncontrolling interests	45	111	310	142
Net income (loss) attributable to controlling interests and available to common stockholders	$8,203	$2,488	$12,168	$(2,580)
Net income (loss) per common share – basic	$0.20	$0.06	$0.29	$(0.07)
Net income (loss) per common share – diluted	$0.19	$0.06	$0.29	$(0.07)
Weighted average shares outstanding – basic	40,017,215	39,032,087	39,910,928	39,005,202

Weighted average shares outstanding – diluted	41,092,258	39,651,363	40,894,506	39,005,202

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$12,478	$(2,438)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, accretion, and amortization expense	28,230	28,605
Amortization of deferred financing costs and bond discounts	1,272	1,171
Stock-based compensation expense	2,896	2,120
Deferred income taxes	1,891	1,891
Loss on disposal of assets	1,472	3,784
Unrealized gain on derivative instruments	(506)	—
Amortization of accumulated other comprehensive losses associated with derivative instruments no longer designated as hedging instruments	946	—
Other reserves and non-cash items	959	(1,922)
Changes in assets and liabilities:		
Decrease in accounts and notes receivable, net	7,525	2,070
(Increase) decrease in prepaid, deferred costs, and other current assets	(2,185)	6,734
Decrease (increase) in inventory	535	(47)
Decrease in other assets	1,328	1,192
Increase (decrease) in accounts payable	5,646	(5,804)
Decrease in accrued liabilities	(7,067)	(1,906)
Decrease in other liabilities	(2,819)	(2,745)
Net cash provided by operating activities	52,601	32,705
Cash flows from investing activities:		
Additions to property and equipment	(20,783)	(10,712)
Payments for exclusive license agreements and site acquisition costs	(229)	(87)
Net cash used in investing activities	(21,012)	(10,799)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	27,812
Repayments of long-term debt and capital leases	(1,277)	(46,486)
Repayments of borrowings under bank overdraft facility, net	—	(142)
Payments received on subscriptions receivable	—	34
Proceeds from exercises of stock options	301	—
Debt issuance and modification costs	—	(458)
Repurchase of capital stock	(1,390)	(92)
Net cash used in financing activities	(2,366)	(19,332)
Effect of exchange rate changes on cash	417	494
Net increase in cash and cash equivalents	29,640	3,068
Cash and cash equivalents as of beginning of period	10,449	3,424

Cash and cash equivalents as of end of period	$40,089	$6,492
Supplemental disclosure of cash flow information:		
Cash paid for interest, including interest on capital leases	$14,667	$15,525
Cash paid for income taxes	$398	$285
Fixed assets financed by direct debt	$542	$—

See accompanying notes to consolidated financial statements.

CARDTRONICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) General and Basis of Presentation

General

Cardtronics, Inc., along with its wholly- and majority-owned subsidiaries (collectively, the “Company”) provides convenient automated consumer financial services through its network of automated teller machines (“ATMs”) and multi-function financial services kiosks. As of June 30, 2010, the Company operated over 33,700 devices across its portfolio, which included over 28,000 devices located in all 50 states of the United States (“U.S.”) (including the U.S. territories of Puerto Rico and the U.S. Virgin Islands), approximately 2,800 devices throughout the United Kingdom (“U.K.”), and approximately 2,900 devices throughout Mexico. Included within this number are approximately 2,200 multi-function financial services kiosks deployed in the U.S. that, in addition to traditional ATM functions such as cash dispensing and bank account balance inquiries, perform other consumer financial services, including bill payments, check cashing, remote deposit capture (which is deposit taking at off-premise ATMs using electronic imaging), and money transfers.

Through its network, the Company provides ATM management and equipment-related services (typically under multi-year contracts) to large, nationally-known retail merchants as well as smaller retailers and operators of facilities such as shopping malls and airports. Additionally, the Company operates the largest surcharge-free network of ATMs within the United States (based on the number of participating ATMs) and works with financial institutions to place their logos on the Company’s ATM machines, thus providing convenient surcharge-free access to the financial institutions’ customers. The Company’s surcharge-free network, which operates under the Allpoint brand name, has more than 37,000 participating ATMs, including a majority of the Company’s ATMs in the United States and all of the Company’s ATMs in the United Kingdom. Finally, the Company provides electronic funds transfer (“EFT”) transaction processing services to its network of ATMs as well as approximately 1,900 ATMs owned and operated by third parties.

Basis of Presentation

This Quarterly Report on Form 10-Q (this “Form 10-Q”) has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial information. Because this is an interim period filing presented using a condensed format, it does not include all of the disclosures required by accounting principles generally accepted in the United States (“U.S. GAAP”), although the Company believes that the disclosures are adequate to make the information not misleading. You should read this Form 10-Q along with the Company’s Annual Report on Form 10-K for the year ended December 31, 2009 (“2009 Form 10-K”), which includes a summary of the Company’s significant accounting policies and other disclosures.

The financial statements as of June 30, 2010 and for the three and six month periods ended June 30, 2010 and 2009 are unaudited. The Consolidated Balance Sheet as of December 31, 2009 was derived from the audited balance sheet filed in the Company’s 2009 Form 10-K. In management’s opinion, all normal recurring adjustments necessary for a fair presentation of the Company’s interim and prior period results have been made. The results of operations for the three and six month periods ended June 30, 2010 and 2009 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year. Additionally, the financial statements for prior periods include certain minor reclassifications. Those reclassifications did not impact the Company’s total reported net income (loss) or stockholders’ deficit.

The unaudited interim consolidated financial statements include the accounts of Cardtronics, Inc. and its wholly- and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. Because the Company owns a majority (51.0%) interest in and realizes a majority of the earnings and/or losses of Cardtronics Mexico, S.A. de C.V. ("Cardtronics Mexico"), this entity is reflected as a consolidated subsidiary in the accompanying consolidated financial statements, with the remaining ownership interest not held by the Company being reflected as a noncontrolling interest.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and these differences could be material to the financial statements.

Cost of ATM Operating Revenues and Gross Profit Presentation

The Company presents "Cost of ATM operating revenues" and "Gross profit" within its Consolidated Statements of Operations exclusive of depreciation, accretion, and amortization expense related to ATMs and ATM-related assets. The following table sets forth the amounts excluded from Cost of ATM operating revenues and Gross profit for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
		(In thousands)		
Depreciation and accretion expenses related to ATMs and ATM-related assets	$8,337	$8,236	$16,636	$16,273
Amortization expense	3,765	4,504	7,744	9,031
Total depreciation, accretion, and amortization expenses excluded from Cost of ATM operating revenues and Gross profit	$12,102	$12,740	$24,380	$25,304

Property and Equipment, net

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

(2) Stock-Based Compensation

The Company calculates the fair value of stock-based awards granted to employees and directors on the date of grant and recognizes the calculated fair value, net of estimated forfeitures, as compensation expense over the requisite service periods of the related awards. The following table reflects the total stock-based compensation expense amounts included in the Company's Consolidated Statements of Operations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009

		(In thousands)		
Cost of ATM operating revenues	$169	$193	$368	$384
Selling, general, and administrative expenses	1,268	869	2,528	1,736
Total stock-based compensation expense	$1,437	$1,062	$2,896	$2,120

The increase in stock-based compensation expense during the three and six month periods ended June 30, 2010 was due to the issuance of additional shares of restricted stock and stock options to certain of the Company's employees and directors during 2009 and 2010. Both the restricted shares and the stock options were granted under the Company's Amended and Restated 2007 Stock Incentive Plan (the "2007 Stock Incentive Plan").

At the Company's 2010 Annual Meeting of Shareholders held on June 15, 2010, stockholders approved the amendment and restatement of the 2007 Stock Incentive Plan. Among other things, changes to the 2007 Stock Incentive Plan included increasing in the maximum number of shares of common stock that may be granted as equity incentive awards under the plan by 2,000,000 shares, from 3,179,393 to 5,179,393. As a result of the increased number of shares eligible for grant under the 2007 Stock Incentive Plan, in the event the Company makes additional grants under the plan, stock-based compensation expense would increase in future periods.

In addition to increasing the number of shares eligible for grant, stockholders voted to (i) adjust the existing provisions regarding performance-based awards granted and conform a number of administration provisions of the 2007 Stock Incentive Plan necessary to effectuate the modified performance-based awards, (ii) modify the annual award limitations for any individual participant of the plan as well as the performance criteria that may be utilized to structure performance-based awards, (iii) increase the term of the plan from a 10-year period beginning on the original adoption date (which was August 22, 2007) to a 10-year period beginning on the adoption of the amendment to the plan, and (iv) add two types of awards eligible for grant under the plan: a restricted stock unit award and an annual incentive award.

Options. The number of the Company's outstanding stock options as of June 30, 2010, and changes during the six month period ended June 30, 2010, are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as of January 1, 2010	3,803,771	$8.34
Granted	23,000	$10.95
Exercised	(267,471)	$1.31
Forfeited	(52,500)	$7.73
Options outstanding as of June 30, 2010	3,506,800	$8.90
Options vested and exercisable as of June 30, 2010	2,976,276	$8.65

The options granted during the six month period ended June 30, 2010 had a total grant-date fair value of approximately $126,500, or $5.50 per share. As of June 30, 2010, the unrecognized compensation expense associated with outstanding options was approximately $1.1 million.

Restricted Stock. The number of the Company's outstanding restricted shares as of June 30, 2010, and changes during the six month period ended June 30, 2010, are presented below:

	Number of Shares
Restricted shares outstanding as of January 1, 2010	1,114,437
Granted	729,940
Vested	(354,437)
Forfeited	(14,250)
Restricted shares outstanding as of June 30, 2010	1,475,690

The restricted shares granted to employees and directors during the six month period ended June 30, 2010 had a total grant-date fair value of approximately $7.9 million, or $10.89 per share. As of June 30, 2010, the unrecognized compensation expense associated with restricted share grants was approximately $12.9 million.

(3) Earnings per Share

The Company reports its earnings per share under the two-class method. Under this method, potentially dilutive securities are excluded from the calculation of diluted earnings per share (as well as their related income statement impacts) when their impact on net income (loss) available to common stockholders is anti-dilutive. For the six month period ended June 30, 2009, the Company incurred a net loss and, accordingly, excluded all potentially dilutive securities from the calculation of diluted earnings per share as their impact on the net loss available to common stockholders was anti-dilutive. Such securities included all outstanding stock options and shares of restricted stock. However, dilutive securities were included in the calculation of diluted earnings per share for the three and six month periods ended June 30, 2010 and the three month period ended June 30, 2009 as the Company reported net income 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, such restricted shares are considered to be participating securities and as such, the Company has allocated the undistributed earnings for the three and six month periods ended June 30, 2010 and the three month period ended June 30, 2009 among the Company’s outstanding shares of common stock and issued but unvested restricted shares, as follows:

Earnings per Share (in thousands, excluding share and per share amounts):

	Three Months Ended June 30, 2010			Six Months Ended June 30, 2010		
	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	$ 8,203			$ 12,168		
Less: undistributed earnings allocated to unvested restricted shares	(347)			(499)		
Net income available to common stockholders	$ 7,856	40,017,215	$ 0.20	$ 11,669	39,910,928	$ 0.29
Diluted:						
Effect of dilutive securities:						
Add: Undistributed earnings allocated to restricted shares	$ 347			$ 499		
Stock options added to the denominator under the treasury stock method		1,075,043			983,578	
Less: Undistributed earnings reallocated to restricted shares	(338)			(487)		
Net income available to common stockholders and assumed conversions	$ 7,865	41,092,258	$ 0.19	$ 11,681	40,894,506	$ 0.29

	Three Months Ended June 30, 2009		
	Income	Weighted Average Shares Outstanding	Earnings Per Share
Basic:			
Net income attributable to controlling interests and available to common stockholders	$2,488		
	(90)		

Less: undistributed earnings allocated to unvested restricted shares			
Net income available to common stockholders	$2,398	39,032,087	$0.06
Diluted:			
Effect of dilutive securities:			
Add: Undistributed earnings allocated to restricted shares	$90		
Stock options added to the denominator under the treasury stock method		619,276	
Less: Undistributed earnings reallocated to restricted shares	(89)		
Net income available to common stockholders and assumed conversions	$2,399	39,651,363	$0.06

The computation of diluted earnings per share excluded potentially dilutive common shares related to restricted stock of 558,585 and 339,481 shares for the three and six month periods ended June 30, 2010, respectively, and 5,805 shares for the three month period ended June 30, 2009, because the effect of including these shares in the computation would have been anti-dilutive.

(4) Comprehensive Income (Loss)

Total comprehensive income (loss) consisted of the following:

	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
	(In thousands)			
Net income (loss)	$8,248	$2,599	$12,478	$(2,438)
Unrealized (losses) gains on interest rate swap contracts	(7,717)	343	(11,101)	1,536
Foreign currency translation adjustments	(487)	10,113	(3,822)	8,697
Total comprehensive income (loss)	44	13,055	(2,445)	7,795
Less: comprehensive (loss) income attributable to noncontrolling interests	(25)	162	329	171
Comprehensive income (loss) attributable to controlling interests	$69	$12,893	$(2,774)	$7,624

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

	June 30, 2010	December 31, 2009
	(In thousands)	
Foreign currency translation adjustments	$(28,242)	$(24,420)
Unrealized losses on interest rate swap contracts	(44,299)	(33,198)
Total accumulated other comprehensive loss	$(72,541)	$(57,618)

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

Additionally, as a result of the Company's overall net loss position for tax purposes, the Company has not recorded deferred tax benefits on the unrealized loss amounts related to its interest rate swaps, as management does not currently believe the Company will be able to realize the benefits associated with its net deferred tax asset positions. However, if the Company continues to generate pre-tax operating profits, as it has during recent periods, its existing and future valuation allowances may no longer be necessary, including those related to the unrealized losses associated with the Company's interest rate swaps. Any release of the valuation allowances associated with the Company's interest rate swap agreements will be accounted for as a reduction of the unrealized loss amounts currently reflected in the accumulated other comprehensive loss line item within stockholders' deficit in the accompanying Consolidated Balance Sheets.

(5) Intangible Assets

Intangible Assets with Indefinite Lives

The following table presents the net carrying amount of the Company's intangible assets with indefinite lives as of June 30, 2010, as well as the changes in the net carrying amounts for the six month period ended June 30, 2010, by segment:

	Goodwill U.S.	U.K.	Mexico	Trade Name U.S.	U.K.	Total
			(In thousands)			
Balance as of January 1, 2010:						
Gross balance	$ 150,461	$ 63,994	$ 714	$ 200	$ 3,243	$ 218,612
Accumulated impairment loss	—	(50,003)	—	—	—	(50,003)
	$ 150,461	$ 13,991	$ 714	$ 200	$ 3,243	$ 168,609
Foreign currency translation adjustments	—	(1,043)	(2)	—	(242)	(1,287)
Balance as of June 30, 2010:						
Gross balance	$ 150,461	$ 62,951	$ 712	$ 200	$ 3,001	$ 217,325
Accumulated impairment loss	—	(50,003)	—	—	—	(50,003)
	$ 150,461	$ 12,948	$ 712	$ 200	$ 3,001	$ 167,322

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, 2010:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)	
Customer and branding contracts/relationships	$156,264	$(87,783)	$68,481
Deferred financing costs	14,535	(8,555)	5,980
Exclusive license agreements	5,545	(3,627)	1,918
Non-compete agreements	509	(212)	297
Total	$176,853	$(100,177)	$76,676

(6) Accrued Liabilities

Accrued liabilities consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Accrued merchant commissions	$12,581	$11,470
Accrued interest expense	10,406	10,406
Accrued compensation	4,017	8,470
Accrued armored fees	3,265	5,234
Accrued merchant settlement amounts	3,203	3,603
Accrued cash rental and management fees	2,824	2,866
Accrued interest rate swap payments	2,119	1,937
Accrued maintenance fees	1,794	4,133
Accrued ATM telecommunications costs	1,243	1,169
Accrued processing costs	1,084	1,556
Other accrued expenses	8,843	6,739
Total	$51,379	$57,583

(7) Long-Term Debt

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

	June 30, 2010	December 31, 2009
	(In thousands)	
Senior subordinated notes due August 2013 (net of unamortized discounts of $2.4 million and $2.8 million as of June 30, 2010 and December 31, 2009)	$297,567	$297,242
Other	9,474	9,810
Total	307,041	307,052
Less: current portion	2,481	2,122
Total long-term debt, excluding current portion	$304,560	$304,930

Revolving Credit Facility

As of June 30, 2010 and December 31, 2009, no borrowings were outstanding under the Company’s $175.0 million revolving credit facility. However, as of June 30, 2010, the Company had a $4.3 million letter of credit posted under the facility to secure borrowings under the Company’s United Kingdom subsidiary’s overdraft facility (discussed below). This letter of credit, which may be drawn upon in the event the Company defaults under the overdraft facility, reduces the Company’s borrowing capacity under its revolving credit facility. As of June 30, 2010, the Company’s available borrowing capacity under the 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 credit agreement, totaled $170.7 million, and the Company was in compliance with all applicable covenants and ratios under the facility.

In July 2010, in conjunction with entering into a new $175.0 million revolving credit facility, the Company terminated its previous $175.0 million credit facility. Additionally, the Company announced its plans to redeem all $100.0 million of its existing outstanding 9.25% Senior Subordinated Notes – Series B due August 2013 (the “Series B Notes”). See Note 17, Subsequent Events, for additional details on the new revolving credit facility, the termination of the previous facility, and the Company’s bond redemption plans.

Other Facilities

Cardtronics Mexico equipment financing agreements. As of June 30, 2010, other long-term debt consisted of 10 separate equipment financing agreements entered into by Cardtronics Mexico. These agreements, each of which had an original term of five-years, are denominated in Mexican pesos and bear interest at an average fixed rate of 10.49%. Proceeds from these agreements were utilized for the purchase of additional ATMs to support the Company’s Mexico operations. Pursuant to the terms of the equipment financing agreements, the Company has issued guarantees for 51.0% of the obligations under such agreements (consistent with its ownership percentage in Cardtronics Mexico.) As of June 30, 2010, the total amount of the guarantees was $62.0 million pesos (or approximately $4.8 million U.S.).

Bank Machine overdraft facility. Bank Machine, Ltd., the Company’s wholly-owned subsidiary operating in the United Kingdom, currently has a £1.0 million overdraft facility in place. This facility, which bears interest at 1.75% over the Bank of England’s base rate (0.5% as of June 30, 2010) and is secured by a letter of credit posted under the Company’s corporate revolving credit facility, is utilized for general corporate purposes for the Company’s United Kingdom operations. As of June 30, 2010, no amount was outstanding under this facility.

(8) Asset Retirement Obligations

Asset retirement obligations consist primarily of costs to deinstall the Company’s ATMs and costs to restore the ATM sites to their original condition. In most cases, the Company is legally required to perform this deinstallation and restoration work. For each group of ATMs, the Company has recognized the fair value of the asset retirement obligation as a liability on its balance sheet 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 five years, which is the average time period an ATM is installed in a location before being deinstalled, and the related liabilities are being accreted to their full value over the same period of time.

The following table is a summary of the changes in the Company’s asset retirement obligation liability for the six month period ended June 30, 2010 (in thousands):

Asset retirement obligation as of January 1, 2010	$24,003

Additional obligations	1,967
Accretion expense	1,252
Change in estimate	61
Payments	(1,341)
Foreign currency translation adjustments	(601)
Asset retirement obligation as of June 30, 2010	$25,341

The change in estimate during the six month period ended June 30, 2010 related to the Company's most recent evaluation of the useful lives of its various asset classes. For additional information on this change, see Note 1, General and Basis of Presentation – Property and Equipment, net. Additionally, see Note 11, Fair Value Measurements for additional disclosures on the Company's asset retirement obligations in respect to its fair value measurements.

(9) Other Liabilities

Other liabilities consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Current Portion of Other Long-Term Liabilities:		
Interest rate swaps	$22,409	$23,423
Deferred revenue	2,030	2,464
Other	160	160
Total	$24,599	$26,047
Other Long-Term Liabilities:		
Interest rate swaps	$24,850	$12,656
Deferred revenue	1,781	2,393
Other	3,016	3,450
Total	$29,647	$18,499

The increase in the non-current portion of other long-term liabilities was attributable to the Company's interest rate swaps, the liabilities for which increased as a result of additional swap agreements entered into this quarter. Also contributing to the increase was a significant flattening of the forward interest rate curve, which was utilized to value the interest rate swap contracts and resulted in an increase in the Company's estimated future liabilities under such contracts.

(10) Derivative Financial Instruments

Accounting Policy

The Company recognizes all of its derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. The accounting for changes in the fair value (e.g., gains or losses) of those derivative instruments depends on (i) whether these instruments have been designated (and qualify) as part of a hedging relationship and (ii) the type of hedging relationship actually designated. For derivative instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge, or a hedge of a net investment in a foreign operation.

The Company is exposed to certain risks relating to its ongoing business operations, including interest rate risk associated with its vault cash rental obligations and, to a lesser extent, borrowings under its revolving credit facility, if and when outstanding. The Company is also exposed to foreign currency rate risk with respect to its investments in its foreign subsidiaries, most notably its investment in Bank Machine, Ltd. in the United Kingdom. While the Company does not currently utilize derivative instruments to hedge its foreign currency rate risk, it does utilize interest rate swap contracts to manage the interest rate risk associated with its vault cash rental obligations in the United States and the United Kingdom. The Company does not currently utilize any derivative instruments to manage the interest rate risk associated with its vault cash rental obligations in Mexico, nor does it utilize derivative instruments to manage the interest rate risk associated with borrowings outstanding under its revolving credit facility.

The notional amounts, weighted average fixed rates, and terms associated with the Company's interest rate swap contracts accounted for as cash flow hedges that are currently in place are as follows:

Notional Amounts United States		Notional Amounts United Kingdom		Notional Amounts Consolidated (1)		Weighted Average Fixed Rate		Terms
		(In thousands)						
$	600,000	£	75,000	$	712,585	3.77	%	July 1, 2010 – December 31, 2010
$	625,000	£	75,000	$	737,585	3.44	%	January 1, 2011 – December 31, 2011
$	525,000	£	50,000	$	600,057	3.56	%	January 1, 2012 – December 31, 2012
$	275,000	£	25,000	$	312,528	3.53	%	January 1, 2013 – December 31, 2013
$	100,000	£	—	$	100,000	3.61	%	January 1, 2014 – December 31, 2014

(1) United Kingdom pound sterling amounts have been converted into United States dollars at approximately $1.50 to £1.00, which was the exchange rate in effect as of June 30, 2010.

The Company has designated a majority of its interest rate swap contracts as cash flow hedges of the Company's forecasted vault cash rental obligations. Accordingly, changes in the fair values of the related interest rate swap contracts have been reported in accumulated other comprehensive loss in the Consolidated Balance Sheets. As a result of the Company's overall net loss position for tax purposes, the Company has not recorded any deferred tax benefits on the loss amounts related to these interest rate swap contracts, as management does not currently believe that it is more likely than not that the Company will be able to realize the benefits associated with its net deferred tax asset positions. However, if the Company continues to generate substantial pre-tax operating profits, as it has during recent periods, its existing and future valuation allowances may no longer be necessary, including those related to the unrealized losses associated with the Company's interest rate swaps. Any release of the valuation allowances associated with the Company's interest rate swap agreements will be accounted for as a reduction of the unrealized loss amounts currently reflected in the accumulated other comprehensive loss line item within stockholders' deficit in the accompanying Consolidated Balance Sheets.

Cash Flow Hedging Strategy

For each derivative instrument that is designated and qualifies as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income/loss ("OCI") and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedge transaction affects earnings. Gains and losses on the derivative instrument representing either hedge ineffectiveness or hedge components that are excluded from the assessment of effectiveness are recognized in earnings. However, because the Company currently only utilizes fixed-for-floating interest rate swaps in which the underlying pricing terms agree, in all material respects, with the pricing terms of the Company's vault cash rental obligations, the amount of ineffectiveness associated with such interest rate swap contracts has historically been immaterial. Accordingly, no ineffectiveness amounts associated with the Company's cash flow hedges have been recorded in the Company's consolidated financial statements. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the Consolidated Statements of Operations during the current period.

The interest rate swap contracts entered into with respect to the Company's vault cash rental obligations effectively modify the Company's exposure to interest rate risk by converting a portion of the Company's monthly floating rate vault cash rental obligations to a fixed rate. Such contracts are in place through December 31, 2014 for the Company's United States vault cash rental obligations, and December 31, 2013 for the Company's United Kingdom vault cash rental obligations. By converting such amounts to a fixed rate, the impact of future interest rate changes (both favorable and unfavorable) on the Company's monthly vault cash rental expense amounts has been reduced. The interest rate swap contracts typically involve the receipt of floating rate amounts from the Company's counterparties that match, in all material respects, the floating rate amounts required to be paid by the Company to its vault cash providers for the portions of the Company's outstanding vault cash obligations that have been hedged. In return, the Company typically pays the interest rate swap counterparties a fixed rate amount per month based on the same notional amounts outstanding. At no point is there an exchange of the underlying principal or notional amounts associated with the interest rate swaps. Additionally, none of the Company's existing interest rate swap contracts contain credit-risk-related contingent features.

The Company is also a party to certain derivative instruments that were originally, but are no longer, designated as cash flow hedges. Specifically, during 2009, the Company entered into a number of interest rate swaps to hedge its exposure to changes in market rates of interest on its vault cash rental expense in the United Kingdom. During the fourth quarter of 2009, the Company's vault cash provider in that market exercised its rights under the contract to modify the pricing terms and changed the target vault cash rental rate within the agreement. As a result of this change, the Company was no longer able to apply cash flow hedge accounting treatment to the underlying interest rate swap agreements. In December 2009, the Company entered into a series of additional trades, the effects of which were to offset the existing swaps and establish new swaps to match the modified underlying vault cash rental rate. Since the underlying swaps were not deemed to be effective hedges of the Company's underlying vault cash rental costs, during the three and six months ended June 30, 2010, an unrealized gain and a corresponding realized loss of $0.3 million and $0.5 million, respectively, related to these swaps have been reflected in the other expense (income) line item in the accompanying Consolidated Statements of Operations.

Tabular Disclosures

The following tables depict the effects of the use of the Company's derivative contracts on its Consolidated Balance Sheets and Consolidated Statements of Operations.

Balance Sheet Data

	June 30, 2010 Balance Sheet Location	Fair Value	December 31, 2009 Balance Sheet Location	Fair Value
Asset Derivative Instruments:		(In thousands)		
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Prepaid expenses, deferred costs, and other assets	$ —	Prepaid expenses, deferred costs, and other assets	$ 1,445
Derivatives Not Designated as Hedging Instruments:				
Interest rate swap contracts	Prepaid expenses, deferred costs, and other current assets	$ 807	Prepaid expenses, deferred costs, and other current assets	$ —
Interest rate swap contracts	Prepaid expenses, deferred costs, and other assets	400	Prepaid expenses, deferred costs, and other current assets	—
Total		$ 1,207		$ —
Liability Derivative Instruments:				
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Current portion of other long-term liabilities	$ 20,573	Current portion of other long-term liabilities	$ 22,286
Interest rate swap contracts	Other long-term liabilities	23,527	Other long-term liabilities	11,139
Total		$ 44,100		$ 33,425
Derivatives Not Designated as Hedging Instruments:				
Interest rate swap contracts	Current portion of	$ 1,836	Current portion of	$ 1,137

	other long-term liabilities		other long-term liabilities	
Interest rate swap contracts	Other long-term liabilities	1,323	Other long-term liabilities	1,517
Total		$ 3,159		$ 2,654
Total Derivatives:		$ 46,052		$ 34,634

The Asset Derivative Instruments reflected in the table above relate to the current portion of certain derivative instruments that were in an overall liability position, for which the non-current portion is reflected in the Liability Derivative Instruments portion above.

Statements of Operations Data

Derivatives in Cash Flow Hedging Relationships	Three Months Ended June 30, Amount of Loss Recognized in OCI on Derivative Instruments (Effective Portion) 2010	2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) 2010	2009
	(In thousands)			(In thousands)	
Interest rate swap contracts	$(14,359)	$(5,248)	Cost of ATM operating revenues	$(6,339)	$(5,591)

Derivatives in Cash Flow Hedging Relationships	Six Months Ended June 30, Amount of Loss Recognized in OCI on Derivative Instruments (Effective Portion) 2010	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)