CARDTRONICS INC
Form 10-Q
May 05, 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 March 31, 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 incorporation or organization)	(I.R.S. Employer Identification No.)

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 May 01, 2014: 44,480,760

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)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60,653	$ 86,939
Accounts and notes receivable, net of allowance of $608 and $571 as of March 31, 2014 and December 31, 2013, respectively	63,854	58,274
Inventory, net	5,855	5,302
Restricted cash	27,921	14,896
Current portion of deferred tax asset, net	20,459	21,202
Prepaid expenses, deferred costs, and other current assets	23,242	20,159
Total current assets	201,984	206,772
Property and equipment, net	272,847	270,966
Intangible assets, net	150,529	155,276
Goodwill	411,140	404,491
Deferred tax asset, net	10,879	9,680
Prepaid expenses, deferred costs, and other noncurrent assets	7,260	9,018
Total assets	$ 1,054,639	$ 1,056,203
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 939	$ 1,289
Current portion of other long-term liabilities	36,329	35,597

Accounts payable	21,920	38,981
Accrued liabilities	149,380	137,776
Current portion of deferred tax liability, net	—	1,152
Total current liabilities	208,568	214,795
Long-term liabilities:		
Long-term debt	483,593	489,225
Asset retirement obligations	62,049	60,665
Deferred tax liability, net	7,140	5,668
Other long-term liabilities	36,600	38,736
Total liabilities	797,950	809,089
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $0.0001 par value; 125,000,000 shares authorized; 51,473,934 and 51,207,849 shares issued as of March 31, 2014 and December 31, 2013, respectively; 44,481,159 and 44,375,952 shares outstanding as of March 31, 2014 and December 31, 2013, respectively	5	5
Additional paid-in capital	335,118	330,862
Accumulated other comprehensive loss, net	(71,028)	(72,954)
Retained earnings	91,242	81,677
Treasury stock: 6,992,775 and 6,831,897 shares at cost as of March 31, 2014 and December 31, 2013, respectively	(96,753)	(90,679)
Total parent stockholders’ equity	258,584	248,911
Noncontrolling interests	(1,895)	(1,797)
Total stockholders’ equity	256,689	247,114
Total liabilities and stockholders’ equity	$ 1,054,639	$ 1,056,203

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

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

	Three Months Ended March 31,	
	2014	2013
Revenues:		
ATM operating revenues	$ 238,139	$ 193,360
ATM product sales and other revenues	6,933	4,378
Total revenues	245,072	197,738
Cost of revenues:		
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization of intangible assets shown separately below. See Note 1)	159,759	129,560
Cost of ATM product sales and other revenues	6,810	4,129
Total cost of revenues	166,569	133,689
Gross profit	78,503	64,049
Operating expenses:		
Selling, general, and administrative expenses	24,527	18,989
Acquisition-related expenses	3,087	2,822
Depreciation and accretion expense	18,346	16,285
Amortization of intangible assets	8,217	5,748
Loss on disposal of assets	268	203
Total operating expenses	54,445	44,047
Income from operations	24,058	20,002
Other expense (income):		
Interest expense, net	5,416	5,066
Amortization of deferred financing costs and note discount	2,685	229
Redemption costs for early extinguishment of debt	654	—
Other expense (income)	31	(421)
Total other expense	8,786	4,874
Income before income taxes	15,272	15,128
Income tax expense	5,773	5,980
Net income	9,499	9,148
Net loss attributable to noncontrolling interests	(66)	(282)
Net income attributable to controlling interests and available to common stockholders	$ 9,565	$ 9,430

Net income per common share – basic	$ 0.22	$ 0.21
Net income per common share – diluted	$ 0.21	$ 0.21
Weighted average shares outstanding – basic	44,215,372	44,247,098
Weighted average shares outstanding – diluted	44,767,588	44,479,366

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

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

	Three Months Ended March 31, 2014	2013
Net income	$ 9,499	$ 9,148
Unrealized gains on interest rate swap contracts, net of deferred income tax expense of $919 and $3,436 for the three months ended March 31, 2014 and 2013, respectively	1,186	5,703
Foreign currency translation adjustments	740	(4,040)
Other comprehensive income	1,926	1,663
Total comprehensive income	11,425	10,811
Less: comprehensive loss attributable to noncontrolling interests	(78)	(222)
Comprehensive income attributable to controlling interests	$ 11,503	$ 11,033

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

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

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 9,499	$ 9,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion, and amortization of intangible assets	26,563	22,033
Amortization of deferred financing costs and note discount	2,685	229
Stock-based compensation expense	3,218	3,165
Deferred income taxes	(947)	1,433
Loss on disposal of assets	268	203
Other reserves and non-cash items	122	1,157
Changes in assets and liabilities:		
Increase in accounts and note receivable, net	(5,628)	(4,457)
Decrease in prepaid, deferred costs, and other current assets	1,096	14,526
Increase in inventory	(899)	(219)
Decrease (increase) in other assets	441	(1,507)
Decrease in accounts payable	(19,036)	(2,722)
(Decrease) increase in accrued liabilities	(2,231)	113
Decrease in other liabilities	(632)	(1,722)
Net cash provided by operating activities	14,519	41,380
Cash flows from investing activities:		
Additions to property and equipment	(16,712)	(15,145)
Payments for exclusive license agreements, site acquisition costs, and other intangible assets	—	(792)
Acquisitions, net of cash acquired	(8,805)	(12,587)
Net cash used in investing activities	(25,517)	(28,524)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	—	57,200
Repayments of long-term debt and capital leases	(8,788)	(58,169)
Repayments of borrowings under bank overdraft facility, net	(761)	—
Debt issuance and modification costs	(142)	—
Payment of contingent consideration	(517)	(250)
Proceeds from exercises of stock options	135	247
Excess tax benefit from stock-based compensation expense	912	3,966
Repurchase of capital stock	(6,074)	(3,804)

Net cash used in financing activities	(15,235)	(810)
Effect of exchange rate changes on cash	(53)	219
Net (decrease) increase in cash and cash equivalents	(26,286)	12,265
Cash and cash equivalents as of beginning of period	86,939	13,861
Cash and cash equivalents as of end of period	$ 60,653	$ 26,126
Supplemental disclosure of cash flow information:		
Cash paid for interest, including interest on capital leases	$ 8,892	$ 9,115
Cash paid for income taxes	$ 4,012	$ 534

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

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CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) General and Basis of Presentation

General

Cardtronics, Inc., along with its wholly- and majority-owned subsidiaries (collectively, the "Company") provides convenient consumer financial services through its network of automated teller machines ("ATMs") and multi-function financial services kiosks. As of March 31, 2014, the Company provided services to over 82,700 devices across its portfolio, which included approximately 65,900 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 11,800 devices throughout the United Kingdom ("U.K."), approximately 900 devices throughout Germany, approximately 1,900 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 82,700 devices are approximately 13,900 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 March 31, 2014, approximately 21,400 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 56,000 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., Puerto Rico and Mexico, approximately a quarter of the Company’s ATMs in Canada, and locations in Australia through a partnership with a local ATM owner and operator in that market. Allpoint also works with financial institutions that manage stored-value debit card programs on behalf of corporate entities and governmental agencies, including general purpose, payroll and electronic benefits transfer (“EBT”) cards. Under these programs, the issuing financial institutions pay Allpoint a fee per issued stored-value card 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 March 31, 2014 and for the three months ended March 31, 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 months ended March 31, 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 months ended March 31, 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 March 31,	
	2014	2013
	(In thousands)	
Depreciation and accretion expenses related to ATMs and ATM-related assets	$ 15,589	$ 14,278
Amortization of intangible assets	8,217	5,748
Total depreciation, accretion, and amortization of intangible assets excluded from Cost of ATM operating revenues and Gross profit	$ 23,806	$ 20,026

(2) Acquisitions

Acquisition of the Cardpoint ATM Portfolio

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. Approximately one fourth of the Company's ATMs deployed in the U.K. are placed with well-known multi-location retailers, whereas the remainder of the ATMs in the U.K., and most of the ATMs in Germany, are primarily placed with individual merchants at their retail locations.

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 months ended March 31, 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 March 31, 2013	
	As Reported	Pro Forma
	(In thousands, excluding per share amounts)	
Total revenues	$ 197,738	$ 223,674
Net income attributable to controlling interests and available to common stockholders	9,430	9,280
Earnings per share – basic	$ 0.21	$ 0.20
Earnings per share – diluted	$ 0.21	$ 0.20

The unaudited pro forma financial results do not reflect the impact of other acquisitions consummated by the Company during 2013, 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 months ended March 31, 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 March 31,	
	2014	2013
	(In thousands)	
Cost of ATM operating revenues	$ 214	$ 205
Selling, general, and administrative expenses	3,004	2,960
Total stock-based compensation expense	$ 3,218	$ 3,165

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 March 31, 2014, and changes during the three months ended March 31, 2014, are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
RSAs outstanding as of January 1, 2014	375,498	$ 18.42
Vested	(210,390)	$ 13.50
Forfeited	(6,250)	$ 27.86
RSAs outstanding as of March 31, 2014	158,858	$ 24.57

As of March 31, 2014, the unrecognized compensation expense associated with all outstanding RSAs was approximately $2.7 million, which will be recognized on a straight-line basis over a remaining weighted-average vesting period of approximately 2.2 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 LTIPs, with or without performance-based vesting requirements.

The number of the Company's non-vested RSUs as of March 31, 2014, and changes during the three months ended March 31, 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	427,411	$ 32.19
Vested	(250,885)	$ 21.71
Forfeited	(17,094)	$ 24.03
Non-vested RSUs as of March 31, 2014	892,667	$ 29.60

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.

As of March 31, 2014, the unrecognized compensation expense associated with earned RSUs was approximately $15.0 million, which will be recognized using a graded vesting schedule for Performance-RSUs and a straight-line vesting schedule for Time-RSUs, over a remaining weighted-average vesting period of approximately 2.55 years.

Options. The number of the Company's outstanding stock options as of March 31, 2014, and changes during the three months ended March 31, 2014, are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as of January 1, 2014	280,175	$ 9.66
Exercised	(15,200)	$ 8.83
Options outstanding as of March 31, 2014	264,975	$ 9.70

Options vested and exercisable as of March 31, 2014	264,975	$	9.70

As of March 31, 2014, the Company had no unrecognized compensation expense associated with outstanding options.

(4) Earnings per Share

The Company reports its earnings per share under the two-class method. Under this method, potentially dilutive securities are excluded from the calculation of diluted earnings per share (as well as their related impact on the net income available to common stockholders) when their impact on net income available to common stockholders is anti-dilutive. Potentially dilutive securities for the three months ended March 31, 2014 and 2013 included all outstanding stock options and shares of restricted stock, which were included in the calculation of diluted earnings per share for these periods.

Additionally, the shares of restricted stock issued by the Company under RSAs have a non-forfeitable right to cash dividends, if and when declared by the Company. Accordingly, restricted shares issued under RSAs are considered to be participating securities and, as such, the Company has allocated the undistributed earnings for the three months ended March 31, 2014 and 2013 among the Company's outstanding shares of common stock and issued but unvested restricted shares, as follows:

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

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Income	Weighted Average Shares Outstanding	Earnings Per Share	Income	Weighted Average Shares Outstanding	Earnings Per Share
Basic:						
Net income attributable to controlling interests and available to common stockholders	$ 9,565			$ 9,430		
Less: Undistributed earnings allocated to unvested RSAs	(49)			(231)		
Net income available to common stockholders	$ 9,516	44,215,372	$ 0.22	$ 9,199	44,247,098	$ 0.21
Diluted:						
Effect of dilutive securities:						
Add: Undistributed earnings allocated to restricted shares	$ 49			$ 231		
Stock options added to the denominator under the treasury stock method		135,579			232,268	
RSUs added to the denominator under the treasury stock method		416,637			—	
Less: Undistributed earnings reallocated to RSAs	(48)			(230)		
Net income available to common stockholders and assumed conversions	$ 9,517	44,767,588	$ 0.21	$ 9,200	44,479,366	$ 0.21

The computation of diluted earnings per share excluded potentially dilutive common shares related to restricted stock of 101,461 shares for the three months ended March 31, 2014, and 480,284 shares for the three months ended March 31, 2013, respectively, because the effect of including these shares in the computation would have been anti-dilutive.

(5) Accumulated Other Comprehensive Loss, Net

Accumulated other comprehensive loss, net is displayed as a separate component of Stockholders' equity in the accompanying Consolidated Balance Sheets. The following tables present the changes in the balances of each component of accumulated other comprehensive loss, net for the three months ended March 31, 2014:

	Foreign currency translation adjustments		Unrealized (losses) gains on interest rate swap contracts			Total	
	(In thousands)						
Total accumulated other comprehensive loss, net as of January 1, 2014	$	(18,436)	$	(54,518)	(1)	$	(72,954)
Other comprehensive income (loss) before reclassification		740		(7,552)	(2)		(6,812)
Amounts reclassified from accumulated other comprehensive loss, net		—		8,738	(2)		8,738
Net current period other comprehensive income		740		1,186			1,926
Total accumulated other comprehensive loss, net as of March 31, 2014	$	(17,696)	$	(53,332)	(1)	$	(71,028)

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(1) Net of deferred income tax benefit of $9,910 and $10,829 as of March 31, 2014 and January 1, 2014, respectively.

(2) Net of deferred income tax (benefit) expense of $(5,852) and $6,771 for Other comprehensive income (loss) before reclassification and Amounts reclassified from accumulated other comprehensive loss, net, respectively. See Note 11, Derivative Financial Instruments.

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The Company records unrealized gains and losses related to its interest rate swaps net of estimated taxes in the Accumulated other comprehensive loss, net line item within Stockholders' equity in the accompanying Consolidated Balance Sheets since it is more likely than not that the Company will be able to realize the benefits associated with its net deferred tax asset positions in the future.

The Company currently believes that the unremitted earnings of its foreign subsidiaries will be reinvested for an indefinite period of time. Accordingly, no deferred taxes have been provided for the differences between the Company's book basis and underlying tax basis in these subsidiaries or on the foreign currency translation adjustment amounts.

(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 well as the changes in the net carrying amounts for the three months ended March 31, 2014, by segment:

	Goodwill			
	U.S.	Europe (1)	Other International (2)	Total
	(In thousands)			
Balance as of January 1, 2014:				
Gross balance	$ 288,439	$ 162,763	$ 3,292	$ 454,494
Accumulated impairment loss	—	(50,003)	—	(50,003)
	$ 288,439	$ 112,760	$ 3,292	$ 404,491
Acquisitions	6,623	—	—	6,623
Purchase price adjustments	—	(817)	—	(817)
Foreign currency translation adjustments	—	928	(85)	843
Balance as of March 31, 2014:				
Gross balance	$ 295,062	$ 162,874	$ 3,207	$ 461,143
Accumulated impairment loss	—	(50,003)	—	(50,003)
	$ 295,062	$ 112,871	$ 3,207	$ 411,140

(1) The Europe segment is comprised of the Company’s operations in the U.K. and Germany.
(2) The Other International segment is comprised of the Company’s operations in Mexico and Canada.

	Trade Name: indefinite-lived		
	U.S.	Europe	Total
	(In thousands)		
Balance as of January 1, 2014	$ 200	$ 560	$ 760
Foreign currency translation adjustments	—	6	6
Balance as of March 31, 2014	$ 200	$ 566	$ 766

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Intangible Assets with Definite Lives

The following is a summary of the Company's intangible assets that were subject to amortization:

	March 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)			(In thousands)		
Customer and branding contracts/relationships	$ 295,404	$ (170,092)	$ 125,312	$ 291,392	$ (162,775)	$ 128,617
Deferred financing costs	15,073	(5,895)	9,178	15,038	(5,466)	9,572
Non-compete agreements	4,067	(2,875)	1,192	4,075	(2,437)	1,638
Technology	2,826	(1,108)	1,718	2,827	(775)	2,052
Trade name: definite-lived	13,263	(900)	12,363	13,164	(527)	12,637
Total	$ 330,633	$ (180,870)	$ 149,763	$ 326,496	$ (171,980)	$ 154,516

(7) Accrued Liabilities

Accrued liabilities consisted of the following:

	March 31, 2014	December 31, 2013
	(In thousands)	
Accrued merchant fees	$ 38,801	$ 32,619
Accrued merchant settlement amounts	30,411	17,365
Accrued taxes	22,247	23,033
Accrued armored fees	7,822	5,271
Accrued cash rental and management fees	6,413	4,570
Accrued maintenance fees	5,707	5,186
Accrued compensation	5,659	12,501
Accrued interest rate swap payments	3,012	2,211

Accrued interest expense	2,679	6,140
Accrued purchases	2,307	2,392
Accrued ATM telecommunications costs	1,992	1,682
Accrued processing costs	919	939
Other accrued expenses	21,411	23,867
Total	$ 149,380	$ 137,776

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(8) Long-Term Debt

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

	March 31, 2014	December 31, 2013
	(In thousands)	
8.25% Senior subordinated notes due September 2018	$ 191,606	$ 200,000
1.00% Convertible senior notes due December 2020, net of discount	218,784	216,635
Revolving credit facility, including swing-line credit facility (weighted-average combined interest rate of 2.5% as of both March 31, 2014 and December 31, 2013)	73,203	72,547
Equipment financing notes	939	1,332
Total	484,532	490,514
Less: current portion	939	1,289
Total long-term debt, excluding current portion	$ 483,593	$ 489,225

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Revolving Credit Facility

As of March 31, 2014, the Company's revolving credit facility provided for $375.0 million in borrowings and letters of credit (subject to the covenants contained within the facility) and had a termination date of July 2016.

As of March 31, 2014, this revolving credit facility included a $15.0 million swing-line facility, an $85.0 million foreign currency sub-limit, and a $20.0 million letter of credit sub-limit. Borrowings under the facility accrued interest at a variable rate, based upon the Company's total leverage ratio and the London Interbank Offered Rate ("LIBOR") or Alternative Base Rate (as defined in the agreement) at the Company's option. Additionally, the Company is required to pay a commitment fee on the unused portion of the revolving credit facility. Substantially all of the Company's assets, including the stock of its wholly-owned domestic subsidiaries and 66% of the stock of its foreign subsidiaries, are pledged to secure borrowings made under the revolving credit facility. Furthermore, each of the Company's domestic subsidiaries has guaranteed the Company's obligations under the revolving credit facility. There are currently no restrictions on the ability of the Company's wholly-owned subsidiaries to declare and pay dividends directly to the Company.

As of March 31, 2014, the Company was in compliance with all applicable covenants and ratios under the facility, which are described in the 2013 Form 10-K.

As of March 31, 2014, $73.2 million was outstanding under the Company's revolving credit facility. Additionally, the Company has posted a $2.0 million letter of credit serving to secure the overdraft facility of its U.K. subsidiary (further discussed below) and a $0.1 million letter of credit serving to secure a third-party processing contract in Canada. These letters of credit, which the applicable third-parties may draw upon in the event the Company defaults on the related obligations, and reduce the Company's borrowing capacity under the facility. As of March 31, 2014, the Company's available borrowing capacity under the revolving credit facility totaled approximately $299.7 million.

The revolving credit facility was subsequently amended on April 24, 2014. This amendment extended the term of the credit facility through April 2019 and amended certain other borrowing features and pricing terms. The combined limit on borrowings and letters of credit under the facility remained unchanged, except the amended facility provides for a $125.0 million accordion feature, whereby the credit facility can be increased to up to $500.0 million under certain conditions and subject to additional commitments from the lender group.

$200.0 Million 8.25% Senior Subordinated Notes Due 2018

The $200.0 million 8.25% senior subordinated notes due September 2018 (the "2018 Notes"), which are guaranteed by all of the Company's domestic subsidiaries, contain no maintenance covenants and only limited incurrence covenants, under which the Company has considerable flexibility. Interest under the 2018 Notes is paid semi-annually in arrears on March 1st and September 1st of each year. As of March 31, 2014, the Company was in compliance with all applicable covenants required under the 2018 Notes.

During the quarter ended March 31, 2014, the Company repurchased $8.4 million of the 2018 Notes in the open market. In connection with the repurchase, the Company recorded a $0.1 million pre-tax charge to write off a portion of the unamortized deferred financing costs associated with the 2018 Notes, which are included in the Amortization of deferred financing costs and note discount line item in the accompanying Consolidated Statements of Operations. Additionally, the Company recorded a $0.7 million pre-tax charge related to the premium paid for the redemption, which is included in the Redemption costs for early extinguishment of debt line item in the accompanying Consolidated Statements of Operations.

$287.5 Million 1.00% Convertible Senior Notes Due 2020 and Related Equity Instruments

On November 19, 2013, the Company issued $250.0 million of 1.00% convertible senior notes due December 2020 (the "Convertible Notes") at par value. The Company also granted to the initial purchasers the option to purchase, during the 13 day period following the issuance of the notes, up to an additional $37.5 million of Convertible Notes (the "Over-allotment Option"). The initial purchasers exercised the Over-allotment Option on November 21, 2013. The Company received $254.2 million in net proceeds from the offering after deducting underwriting fees paid to the initial purchasers and the amount paid to repurchase its outstanding common stock concurrently with the offering. The Company used a portion of the net proceeds from the offering to pay the net cost of the convertible note hedge transaction, as described below. The convertible note hedge and warrant transactions were entered into with the initial purchasers on November 19, 2013, concurrently with the pricing of the Convertible Notes, and on November 21, 2013, concurrent with the exercise of the Over-allotment Option. The Company pays interest semi-annually (payable in arrears) on June 1st and December 1st of each year, beginning on June 1, 2014. Under U.S. GAAP, certain convertible debt instruments that may be settled in cash (or other assets) upon conversion are required to be separately accounted for as liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The Company, with assistance from a valuation professional, determined that the fair value of the debt component was $215.8 million and the fair value of the embedded option was $71.7 million as of the issuance date. Under U.S. GAAP, the Company recognizes effective interest expense on the debt component and that interest expense effectively accretes the debt component to the total principal amount due at maturity of $287.5 million. The effective rate of interest to accrete the debt balance is approximately 5.26%, which corresponds to the Company's estimated conventional debt instrument borrowing rate at the date of issuance.

The Convertible Notes have an initial conversion price of $52.35 per share, which equals an initial conversion rate of 19.1022 shares of common stock per $1,000 principal amount of notes, for a total of approximately 5.5 million shares of our common stock initially underlying the debt. The conversion rate, however, is subject to adjustment under certain circumstances. Conversion can occur: (1) any time on or after September 1, 2020; (2) after March 31, 2014, during any calendar quarter that follows a calendar quarter in which the price of the Company’s common stock exceeds 135% of the conversion price for at least 20 days during the 30 consecutive trading-day period ending on the last trading day of the quarter; (3) during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price of the Convertible Notes is less than 98% of the closing price of the Company’s common stock multiplied by the applicable conversion rate on each such trading day; (4) upon specified distributions to the Company’s shareholders upon recapitalizations, reclassifications or changes in stock; and (5) upon a make-whole fundamental change. A fundamental change is defined as any one of the following: (1) any person or group that acquires 50% or more of the total voting power of all classes of common equity that is entitled to vote generally in the election of the Company’s directors; (2) the Company engages in any recapitalization, reclassification or changes of common stock as a result of which the common stock would be converted into or exchanged for, stock, other securities, or other assets or property; (3) the Company engages in any share exchange, consolidation or merger where the common stock is converted into cash, securities or other property; (4) the Company engages in any sales, lease or other transfer of all or substantially all of the consolidated assets; or (5) the Company’s stock is not listed for trading on any U.S. national securities exchange.

As of March 31, 2014, none of the contingent conversion thresholds described above was met in order for the Convertible Notes to be convertible at the option of the note holders. As a result, the Convertible Notes have been classified as a noncurrent liability on the Company’s Consolidated Balance Sheets at March 31, 2014. In future financial reporting periods, the classification of the Convertible Notes may change depending on whether any of the above contingent criteria have been subsequently satisfied.

Upon conversion, holders of the Convertible Notes are entitled to receive cash, shares of the Company’s common stock or a combination of cash and common stock, at the Company’s election. In the event of a change in control, as defined in the indenture under which the Convertible Notes have been issued, holders can require the Company to purchase all or a portion of their Convertible Notes for 100% of the notes' par value plus any accrued and unpaid interest.

Interest expense related to the Convertible Notes consisted of the following:

	Three Months Ended March 31, 2014	2013
	(In thousands)	
Cash interest per contractual coupon rate	$ 719	$ —
Amortization of note discount	2,149	—
Amortization of deferred financing costs	124	—
Total interest expense related to Convertible Notes	$ 2,992	$ —

The carrying value of the Convertible Notes consisted of the following as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
	(In thousands)	
Principal balance	$ 287,500	$ 287,500
Discount, net of accumulated amortization	(68,716)	(70,865)
Net carrying amount of Convertible Notes	$ 218,784	$ 216,635

In connection with the issuance of the Convertible Notes, the Company entered into separate convertible note hedge and warrant transactions with certain of the initial purchasers to reduce the potential dilutive impact upon the conversion of the Convertible Notes. The net effect of these transactions effectively raised the price at which dilution would occur from the $52.35 initial conversion price of the Convertible Notes to $73.29. Pursuant to the convertible note hedge, the Company purchased call options granting the Company the right to acquire up to approximately 5.5 million shares of its common stock with an initial strike price of $52.35. The call options automatically become exercisable upon conversion of the Convertible Notes, and will terminate on the second scheduled trading day immediately preceding December 1, 2020. The Company also sold to the initial purchasers warrants to acquire up to approximately 5.5 million shares of its common stock with a strike price of $73.29. The warrants will expire incrementally on a series of expiration dates subsequent to the maturity date of the Convertible Notes through August 30, 2021. If the conversion price of the Convertible Notes remains between the strike prices of the call options and warrants, the Company’s shareholders will not experience any dilution in connection with the conversion of the Convertible Notes; however, to the extent that the price of the Company’s common stock exceeds the strike price of the warrants on any or all of the series of related expiration dates of the warrants, the Company will be required to issue additional shares of its common stock to the initial purchasers. The amounts allocated to both the note hedge and warrants were recorded in equity, within the Additional paid-in capital line item.

Other Borrowing Facilities

Cardtronics Mexico equipment financing agreements. Between 2007 and 2010, Cardtronics Mexico entered into several separate five-year equipment financing agreements with a single lender, of which four agreements have outstanding balances as of March 31, 2014. These agreements, which are denominated in pesos and bear interest at an average fixed rate of 9.85%, were utilized for the purchase of ATMs to support growth in the Company’s Mexico operations. As of March 31, 2014, approximately $12.3 million pesos ($0.9 million U.S.) were outstanding under the agreements. Pursuant to the terms of the loan agreements, the Company has issued guarantees for 51.0% of the obligations under these agreements (consistent with its ownership percentage in Cardtronics Mexico). As of March 31, 2014, the total amount of these guarantees was $6.3 million pesos ($0.5 million U.S.).

Bank Machine overdraft facility. Bank Machine, Ltd. (“Bank Machine”) has a £1.0 million overdraft facility. This overdraft facility, which bears interest at 1.0% over the bank’s base rate (0.5% as of March 31, 2014) and is secured by a letter of credit posted under the Company’s revolving credit facility as discussed above in the Revolving Credit Facility section, is utilized for general corporate purposes for the Company’s U.K. operations. As of March 31, 2014, the Company utilized £0.5 million of the overdraft facility leaving available borrowing capacity of £0.5 million outstanding.

(9) 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, which are estimated based on current market rates. In most cases, the Company is contractually 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 depreciated on a straight-line basis over five years, which is the estimated average time period that an ATM is installed in a location before being deinstalled, and the related liabilities are 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 three months ended March 31, 2014 (in thousands):

Asset retirement obligation as of January 1, 2014	$	63,831
Additional obligations		1,085
Accretion expense		813
Payments		(816)
Foreign currency translation adjustments		313
Total asset retirement obligation as of March 31, 2014		65,226

Less: current portion		3,177
Asset retirement obligation, excluding current portion as of March, 31 2014	$	62,049

See Note 12, Fair Value Measurements for additional disclosures on the Company's asset retirement obligations with respect to its fair value measurements.

(10) Other Liabilities

Other liabilities consisted of the following:

	March 31, 2014	December 31, 2013
	(In thousands)	
Current Portion of Other Long-Term Liabilities:		
Interest rate swaps	$ 31,372	$ 31,069
Deferred revenue	1,720	1,315
Asset retirement obligations	3,177	3,166
Other	60	47
Total	$ 36,329	$ 35,597
Other Long-Term Liabilities:		
Interest rate swaps	$ 31,864	$ 34,509
Deferred revenue	963	962
Other	3,773	3,265
Total	$ 36,600	$ 38,736

(11) Derivative Financial Instruments

Cash Flow Hedging Strategy

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. The Company is also exposed to foreign currency exchange rate risk with respect to its investments in its foreign subsidiaries. While the Company does not currently utilize derivative instruments to hedge its foreign currency exchange rate risk, it does utilize interest rate swap contracts to manage the interest rate risk associated with its vault cash rental obligations in the U.S. The Company does not currently utilize any derivative instruments to manage the interest rate risk associated with its vault cash rental obligations in U.K., Mexico, Canada, or Germany, nor does it utilize derivative instruments to manage the interest rate risk associated with borrowings outstanding under its revolving credit facility.

The interest rate swap contracts entered into with respect to the Company's vault cash rental obligations serve to mitigate 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. The Company has contracts in varying notional amounts through December 31, 2018 for the Company's U.S. 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.

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 effective 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 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 (as of the date of the issuance of these financial statements) are as follows:

Notional Amounts		Weighted Average Fixed Rate		Term
(In millions)				
$	1,250	2.98	%	April 1, 2014 – December 31, 2014
$	1,300	2.84	%	January 1, 2015 – December 31, 2015
$	1,300	2.74	%	January 1, 2016 – December 31, 2016
$	1,000	2.53	%	January 1, 2017 – December 31, 2017
$	750	2.54	%	January 1, 2018 – December 31, 2018

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 (1) whether these instruments have been designated (and qualify) as part of a hedging relationship and (2) 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 has designated all 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 the Accumulated other comprehensive loss, net line item within stockholders’ equity in the accompanying Consolidated Balance Sheets.

The Company believes that it is more likely than not that it will be able to realize the benefits associated with its domestic net deferred tax asset positions in the future. Therefore, the Company records the unrealized losses related to its domestic interest rate swaps net of estimated tax benefits in the Accumulated other comprehensive loss, net line item within Stockholders' equity in the accompanying Consolidated Balance Sheets.

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

	March 31, 2014		December 31, 2013	
Liability Derivative Instruments	Balance Sheet Location (In thousands)	Fair Value	Balance Sheet Location (In thousands)	Fair Value
Derivatives Designated as Hedging Instruments:				
Interest rate swap contracts	Current portion of other long-term liabilities	$ 31,372	Current portion of other long-term liabilities	$ 31,069
Interest rate swap contracts	Other long-term liabilities	31,864	Other long-term liabilities	34,509
Total Derivatives		$ 63,236		$ 65,578

Statements of Operations Data

Derivatives in Cash Flow Hedging Relationship	Three Months Ended March 31, Amount of Loss Recognized in OCI on Derivative Instruments (Effective Portion)		Location of Loss Reclassed from Accumulated OCI Into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	
	2014	2013		2014	2013
	(In thousands)			(In thousands)	
Interest rate swap contracts	$ (7,552)	$ (627)	Cost of ATM operating revenues	$ (8,738)	$ (6,330)

The Company does not currently have any derivative instruments that have been designated as fair value or net investment hedges. The Company has not historically, and does not currently, anticipate terminating its existing derivative instruments prior to their expiration dates. If the Company concludes that it is no longer probable that the anticipated future vault cash rental obligations that have been hedged will occur, or if changes are made to the underlying terms and conditions of the Company's vault cash rental agreements, thus creating some amount of ineffectiveness associated with the Company's current interest rate swap contracts, any resulting gains or losses will be recognized within the Other expense (income) line item of the Company's Consolidated Statements of Operations.

As of March 31, 2014, the Company expected to reclassify $31.4 million of net derivative-related losses contained within accumulated OCI into earnings during the next twelve months concurrent with the recording of the related vault cash rental expense amounts.

See Note 12, Fair Value Measurements for additional disclosures on the Company's interest rate swap contracts in respect to its fair value measurements.

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(12) Fair Value Measurements

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2014 using the fair value hierarchy prescribed by U.S. GAAP. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant non-observable inputs. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

	Fair Value Measurements at March 31, 2014			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Liabilities				