CARDTRONICS INC
Form 10-Q
November 09, 2007

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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 September 30, 2007

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 333-113470

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

Delaware *(State or other jurisdiction of incorporation or organization)*	**76-0681190** *(I.R.S. Employer Identification No.)*
3110 Hayes Road, Suite 300 **Houston, TX** *(Address of principal executive offices)*	**77082** *(Zip Code)*

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o   Accelerated filer o   Non-accelerated filer þ

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 November 8, 2007: 1,764,735

CARDTRONICS, INC.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CARDTRONICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,118	$ 2,718
Accounts and notes receivable, net of allowance of $400 and $409 as of September 30, 2007 and December 31, 2006, respectively	24,076	14,891
Inventory	5,294	4,444
Prepaid expenses, deferred costs, and other current assets	11,955	16,334
Total current assets	47,443	38,387
Property and equipment, net	138,324	86,668
Intangible assets, net	134,690	67,763
Goodwill	236,488	169,563
Prepaid expenses and other assets	5,256	5,375
Total assets	$ 562,201	$ 367,756
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 529	$ 194
Current portion of capital lease obligations	1,098	
Current portion of other long-term liabilities	12,552	2,501
Accounts payable and accrued liabilities	79,018	51,256
Total current liabilities	93,197	53,951
Long-term liabilities:		
Long-term debt, net of related discounts	406,100	252,701
Capital lease obligations	1,183	
Deferred tax liability, net	9,943	7,625
Asset retirement obligations	16,392	9,989
Other long-term liabilities and minority interest in subsidiaries	17,921	4,064
Total liabilities	544,736	328,330
Redeemable convertible preferred stock	76,794	76,594

Stockholders deficit:		
Common stock, $0.0001 par value; 5,000,000 shares authorized; 2,394,509 shares issued at September 30, 2007 and December 31, 2006, respectively; 1,764,735 and 1,760,798 outstanding at September 30, 2007 and December 31, 2006, respectively		
Subscriptions receivable (at face value)	(324)	(324)
Additional paid-in capital	3,625	2,857
Accumulated other comprehensive income, net	8,577	11,658
Accumulated deficit	(22,986)	(3,092)
Treasury stock; 629,774 and 633,711 shares at cost at September 30, 2007 and December 31, 2006, respectively	(48,221)	(48,267)
Total stockholders deficit	(59,329)	(37,168)
Total liabilities and stockholders deficit	$ 562,201	$ 367,756

See accompanying notes to condensed consolidated financial statements.

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CARDTRONICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues:				
ATM operating revenues	$ 106,234	$ 72,887	$ 251,854	$ 209,542
Vcom operating revenues	685		685	
ATM product sales and other revenues	3,668	3,478	9,805	9,218
Total revenues	110,587	76,365	262,344	218,760
Cost of revenues:				
Cost of ATM operating revenues (includes stock-based compensation of $16 and $15 for the three months ended September 30, 2007 and 2006, respectively, and $47 and $35 for the nine months ended September 30, 2007 and 2006, respectively. Excludes depreciation, accretion, and amortization, shown separately below.)	79,966	54,280	191,046	157,225
Cost of Vcom operating revenues	2,644		2,644	
Cost of ATM product sales and other revenues	3,111	3,105	9,196	8,142
Total cost of revenues	85,721	57,385	202,886	165,367
Gross profit	24,866	18,980	59,458	53,393
Operating expenses:				
Selling, general, and administrative expenses (includes stock-based compensation of $297 and $240 for the three months ended September 30, 2007 and 2006, respectively, and $721 and $600 for the nine months ended September 30, 2007 and 2006, respectively)	7,621	5,811	20,985	15,709
Depreciation and accretion expense	6,961	5,214	18,541	14,072
Amortization expense	9,204	2,263	14,062	9,610
Total operating expenses	23,786	13,288	53,588	39,391
Income from operations	1,080	5,692	5,870	14,002
Other expense (income):				
Interest expense, net	8,545	5,871	20,437	17,193
Amortization and write-off of financing costs and bond discounts	439	362	1,155	1,576
Minority interest in subsidiary	(174)	(71)	(286)	(128)
Other	678	(83)	1,037	(740)
Total other expense	9,488	6,079	22,343	17,901

Loss before income taxes	(8,408)	(387)	(16,473)	(3,899)
Income tax provision (benefit)	2,275	(60)	3,212	(1,217)
Net loss	(10,683)	(327)	(19,685)	(2,682)
Preferred stock accretion expense	67	67	200	199
Net loss available to common stockholders	$ (10,750)	$ (394)	$ (19,885)	$ (2,881)

See accompanying notes to condensed consolidated financial statements.

CARDTRONICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net loss	$ (19,685)	$ (2,682)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization, and accretion expense	32,603	23,682
Amortization and write-off of financing costs and bond discounts	1,155	1,576
Stock-based compensation expense	768	635
Deferred income taxes	3,065	(1,316)
Minority interest	(286)	(128)
Loss on sale or disposal of assets	1,672	731
Gain on sale of Winn-Dixie equity securities	(569)	
Other reserves and non-cash items	829	
Changes in assets and liabilities, net of acquisitions:		
Increase in accounts and notes receivable, net	(1,607)	(938)
Decrease (increase) in prepaid, deferred costs, and other current assets	2,855	(3,598)
Decrease (increase) in inventory	3,231	(1,184)
Increase in other assets	(5,193)	(907)
Increase in accounts payable and accrued liabilities	19,031	3,972
Decrease in other liabilities	(2,680)	(2,976)
Net cash provided by operating activities	35,189	16,867
Cash flows from investing activities:		
Additions to property and equipment	(43,957)	(24,179)
Proceeds from disposals of property and equipment	3	100
Payments for exclusive license agreements and site acquisition costs	(1,381)	(1,842)
Additions to equipment to be leased to customers	(412)	
Principal payments received under direct financing leases	22	
Acquisition of 7-Eleven Financial Services Business, net of cash acquired	(138,570)	
Other acquisitions, net of cash acquired		(12)
Proceeds from sale of Winn-Dixie equity securities	3,950	
Proceeds received out of escrow related to BASC acquisition	876	
Net cash used in investing activities	(179,469)	(25,933)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	170,258	30,300
Repayments of long-term debt	(22,363)	(22,000)

Proceeds from borrowings under bank overdraft facility, net		54		
Issuance of capital stock		46		
Minority interest shareholder capital contribution		174		
Purchase of treasury stock				(50)
Deferred equity offering costs		(150)		
Debt issuance and modification costs		(326)		(477)
Net cash provided by financing activities		147,693		7,773
Effect of exchange rate changes on cash		(13)		69
Net increase (decrease) in cash and cash equivalents		3,400		(1,224)
Cash and cash equivalents at beginning of period		2,718		1,699
Cash and cash equivalents at end of period	$	6,118	$	475
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	22,872	$	21,554
Cash paid for income taxes	$	27	$	49
Fixed assets financed by direct debt	$	3,125	$	

See accompanying notes to condensed 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-owned subsidiaries (collectively, the Company or Cardtronics), owns and/or operates the world s largest network of ATMs, including over 28,600 automated teller machines (ATM) in all 50 states and approximately 1,900 ATMs located throughout the United Kingdom. Additionally, the Company owns a majority interest in an entity that operates approximately 1,000 ATMs located throughout Mexico. The Company provides ATM management and equipment-related services (typically under multi-year contracts) to large, nationally-known retail merchants as well as smaller retailers and operators of facilities such as shopping malls and airports. Additionally, the Company operates the Allpoint network, the largest surcharge-free ATM network within the United States (based on number of participating ATMs), under which it sells surcharge-free access to its ATMs to financial institutions that lack a significant ATM network. The Company also works with financial institutions to brand the Company s ATMs in order to provide the financial institutions banking customers with convenient, surcharge-free ATM access and increased brand awareness for the financial institutions.

In July 2007, the Company purchased substantially all of the assets of the financial services business of 7-Eleven®, Inc. (7-Eleven) for approximately $138.0 million in cash (the 7-Eleven ATM Transaction), including an adjustment for working capital and other related closing costs. See Note 2 for additional information on this acquisition.

Basis of Presentation

The unaudited interim condensed 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.

This Quarterly Report on 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 of America. You should read this Quarterly Report on Form 10-Q along with the Company s 2006 Annual Report on Form 10-K, which includes a summary of the Company s significant accounting policies and other disclosures.

The financial statements as of September 30, 2007 and for the three and nine month periods ended September 30, 2007 and 2006 are unaudited. The balance sheet as of December 31, 2006 was derived from the audited balance sheet filed in the Company s 2006 Annual Report on Form 10-K. In management s opinion, all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company s interim period results have been made. The results of operations for the three and nine month periods ended September 30, 2007 and 2006 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year. Additionally, the financial statements for prior periods include reclassifications that were made to conform to the current period presentation. Those reclassifications did not impact the Company s reported net loss or stockholders deficit.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 such differences could be material to the financial statements.

CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cost of ATM Operating Revenues and Gross Profit Presentation

The Company presents Cost of ATM operating revenues and Gross profit within its condensed consolidated financial statements exclusive of depreciation, accretion, and amortization. A summary of the amounts excluded from cost of ATM operating revenues and gross profit during the three and nine months ended September 30, 2007 and 2006 is presented below:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands)			
Depreciation and accretion related to ATMs and ATM-related assets	$ 6,479	$ 4,855	$ 17,257	$ 13,033
Amortization	9,204	2,263	14,062	9,610
Total depreciation, accretion, and amortization excluded from cost of ATM operating revenues and gross profit	$ 15,683	$ 7,118	$ 31,319	$ 22,643

The depreciation and accretion amounts shown above and as presented in the Company s condensed consolidated statements of operations includes depreciation and accretion related to assets under capital leases.

2. Acquisitions

Acquisition of 7-Eleven Financial Services Business

On July 20, 2007, the Company acquired substantially all of the assets of the financial services business of 7-Eleven (7-Eleven Financial Services Business) for approximately $138.0 million in cash. Such amount included a $2.0 million payment for estimated acquired working capital and approximately $1.0 million in other related closing costs. Subsequent to September 30, 2007, the working capital payment was reduced to $1.3 million based on the actual working capital amounts outstanding as of the acquisition date, thus reducing the Company s overall cost of the acquisition to $137.3 million. The 7-Eleven ATM Transaction included approximately 5,500 ATMs located in 7-Eleven stores throughout the United States, of which approximately 2,000 are advanced-functionality financial self-service kiosks branded as Vcom™ terminals that are capable of providing more sophisticated financial services, such as check-cashing, deposit taking using electronic imaging, money transfer, bill payment services, and other kiosk-based financial services (collectively, the Vcom Services). The Company funded the acquisition through the issuance of $100.0 million of 9.25% senior subordinated notes due 2013 Series B and additional borrowings under its revolving credit facility, which was amended in connection with the acquisition. See Note 7 for additional details on these financings.

The Company has accounted for the 7-Eleven ATM Transaction as a business combination pursuant to Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations.* Accordingly, the Company has allocated the total purchase consideration to the assets acquired and liabilities assumed based on

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CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

their respective fair values as of the acquisition date. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash	$ 1,427
Trade accounts receivable, net	3,388
Surcharge and interchange receivable	3,769
Inventory	1,953
Other current assets	3,012
Property and equipment	18,315
Software	4,113
Intangible assets subject to amortization	78,000
Goodwill	62,367
Total assets acquired	176,344
Current portion of capital lease obligations	(1,119)
Accounts payable	(688)
Accrued liabilities and deferred income	(9,583)
Current portion of other long-term liabilities	(7,777)
Non-current portion of capital lease obligations	(1,388)
Other long-term liabilities	(17,809)
Total liabilities assumed	(38,364)
Net assets acquired	$ 137,980

The purchase price allocation presented above, which reflects the working capital true-up adjustment, resulted in an initial goodwill balance of approximately $62.4 million, which is deductible for tax purposes. Additionally, the purchase price allocation resulted in approximately $78.0 million in identifiable intangible assets subject to amortization, which consisted of $64.3 million associated with the ten-year ATM operating agreement that was entered into with 7-Eleven in conjunction with the acquisition and $13.7 million related to additional contracts acquired in the transaction. The $78.0 million assigned to the acquired intangible assets was determined by utilizing a discounted cash flow approach. The $64.3 million is being amortized on a straight-line basis over the term of the underlying ATM operating agreement, while the $13.7 million is being amortized over the weighted-average remaining life of the underlying contracts of 8.4 years. Additionally, the Company recorded $19.5 million of other deferred liabilities ($7.8 million in current and $11.7 million in long-term) related to certain unfavorable equipment operating leases and an operating contract assumed as part of the 7-Eleven ATM Transaction. These liabilities are being amortized over the remaining terms of the underlying contracts and serve to reduce the corresponding ATM operating expense amounts to fair value.

Pro Forma Results of Operations

The following table presents the unaudited pro forma combined results of operations of the Company and the acquired 7-Eleven Financial Services Business for the nine month periods ended September 30, 2007 and 2006, after giving effect to certain pro forma adjustments, including the effects of the issuance of the Company s $100.0 million of 9.25% senior subordinated notes due 2013 Series B and additional borrowings under its revolving credit facility, as amended (Note 7). The unaudited pro forma financial results assume that both the 7-Eleven ATM Transaction and related financing transactions occurred on January 1, 2006. This pro forma information is presented for illustrative purposes only and is not necessarily indicative of the actual results that

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CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

would have occurred had those transactions been consummated on such date. Furthermore, such pro forma results are not necessarily indicative of the future results to be expected for the consolidated operations.

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands)	
Revenues	$ 349,854	$ 343,261
Income from operations	15,315	34,178
Net (loss) income	(17,820)	3,233

Acquisition of CCS Mexico

In February 2006, the Company acquired a 51.0% ownership stake in CCS Mexico, an independent ATM operator located in Mexico, for approximately $1.0 million in cash consideration and the assumption of approximately $0.4 million in additional liabilities. Additionally, the Company incurred approximately $0.3 million in transaction costs associated with this acquisition. CCS Mexico, which was renamed Cardtronics Mexico upon the completion of the Company s investment, currently operates approximately 1,000 surcharging ATMs in selected retail locations throughout Mexico, and the Company anticipates placing additional surcharging ATMs in other retail establishments throughout Mexico as those opportunities arise.

The Company has allocated the total purchase consideration to the assets acquired and liabilities assumed based on their respective fair values as of the acquisition date. Such allocation resulted in goodwill of approximately $0.7 million. Such goodwill, which is not deductible for tax purposes, has been assigned to a separate reporting unit representing the acquired CCS Mexico operations. Additionally, such allocation resulted in approximately $0.4 million in identifiable intangible assets, including $0.3 million for certain acquired customer contracts and $0.1 million related to non-compete agreements entered into with the minority interest shareholders of Cardtronics Mexico.

Because the Company owns a majority interest in and absorbs a majority of the entity s losses or returns, Cardtronics Mexico is reflected as a consolidated subsidiary in the accompanying condensed consolidated financial statements, with the remaining ownership interest not held by the Company being reflected as a minority interest. See Note 9 for additional information regarding this minority interest.

3. Stock-based Compensation

In the first quarter of 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*. As a result of this adoption, the Company now records the grant date fair value of stock-based compensation arrangements, net of estimated forfeitures, as compensation expense on a straight-line basis over the underlying service periods of the related awards. The following table reflects the total stock-based compensation expense amounts included in the accompanying condensed consolidated statements of operations for the each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands)			
Cost of ATM operating revenues	$ 16	$ 15	$ 47	$ 35
Selling, general, and administrative expenses	297	240	721	600
Total stock-based compensation expense	$ 313	$ 255	$ 768	$ 635

CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the status of the Company s outstanding stock options as of September 30, 2007, and changes during the nine months ended September 30, 2007, are presented below:

	Number of Shares	Weighted Average Exercise Price
Balance as of January 1, 2007	509,461	$ 52.76
Granted	76,000	$ 90.05
Exercised	(3,937)	$ 11.73
Forfeited	(25,000)	$ 83.84
Balance as of September 30, 2007	556,524	$ 56.74
Options vested and exercisable as of September 30, 2007	333,399	$ 38.58

4. Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting comprehensive income (loss) and its components in the financial statements. Accumulated other comprehensive income is displayed as a separate component of stockholders deficit in the accompanying condensed consolidated balance sheets and consists of unrealized gains and losses, net of related income taxes, related to changes in the fair values of the Company s interest rate swap derivative transactions and the cumulative amount of foreign currency translation adjustments associated with the Company s foreign operations. In addition, as of December 31, 2006, accumulated other comprehensive income included unrealized gains on available-for-sale marketable securities, net of income taxes. These securities were sold in January 2007.

The following table presents the calculation of comprehensive (loss) income, which includes the Company s (i) net loss; (ii) foreign currency translation adjustments; (iii) changes in the unrealized gains and losses associated with the Company s interest rate hedging activities, net of income taxes; and (iv) reclassifications of unrealized gains on the Company s available-for-sale securities, net of income taxes, for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands)			
Net loss	$ (10,683)	$ (327)	$ (19,685)	$ (2,682)
Foreign currency translation adjustments	1,878	1,706	4,378	7,015
Changes in unrealized gains on interest rate hedges, net of taxes	(7,155)	(3,919)	(6,961)	(439)
			(498)	

Reclassifications of unrealized gains on available-for-sale securities, net of taxes				
Total comprehensive (loss) income	$ (15,960)	$ (2,540)	$ (22,766)	$ 3,894

CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the components of accumulated other comprehensive income, net of applicable taxes:

	September 30, 2007	December 31, 2006
	(In thousands)	
Foreign currency translation adjustments	$ 11,089	$ 6,711
Unrealized (losses) gains on interest rate hedges, net of taxes as of December 31, 2006	(2,512)	4,449
Unrealized gains on available-for-sale securities, net of taxes		498
Total accumulated other comprehensive income	$ 8,577	$ 11,658

The Company currently believes that the unremitted earnings of its foreign subsidiaries will be reinvested in the foreign countries in which those subsidiaries operate for an indefinite period of time. Accordingly, no deferred taxes have been provided for on the differences between the Company s book basis and underlying tax basis in those subsidiaries or on the foreign currency translation adjustment amounts reflected in the tables above. The unrealized gains on interest rate hedges as of December 31, 2006 has been included in accumulated other comprehensive income net of income taxes of $2.7 million. However, as a result of the Company s overall net loss position for tax purposes, the Company has not recorded deferred taxes on the loss amount related to its interest rate hedges as of September 30, 2007, as management does not believe that the Company will be able to realize the benefits associated with such deferred tax positions.

5. Intangible Assets

Intangible Assets with Indefinite Lives

The following table depicts the net carrying amount of the Company s intangible assets with indefinite lives as of September 30, 2007 and December 31, 2006, as well as the changes in the net carrying amounts for the nine month period ended September 30, 2007, by segment:

	Goodwill			Trade Name		
	U.S.	U.K.	Mexico	U.S.	U.K.	Total
			(In thousands)			
Balance as of December 31, 2006	$ 86,702	$ 82,172	$ 689	$ 200	$ 3,923	$ 173,686
Acquisition of 7-Eleven Financial Services Business	62,367					62,367
Purchase price adjustment	1,558					1,558
Foreign currency translation adjustments		2,999	1		147	3,147

Balance as of September 30, 2007	$ 150,627	$ 85,171	$ 690	$ 200	$ 4,070	$ 240,758

CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible Assets with Definite Lives

The following is a summary of the Company s intangible assets that are subject to amortization as of September 30, 2007:

	Gross Carrying Amount	Accumulated Amortization (In thousands)	Net Carrying Amount
Customer contracts and relationships	$ 162,426	$ (45,010)	$ 117,416
Deferred financing costs	13,864	(3,903)	9,961
Exclusive license agreements	4,568	(1,583)	2,985
Non-compete agreements	100	(42)	58
Total	$ 180,958	$ (50,538)	$ 130,420

The Company s intangible assets with definite lives are being amortized over the assets estimated useful lives utilizing the straight-line method. Estimated useful lives range from three to twelve years for customer contracts and relationships and four to eight years for exclusive license agreements. The Company has also assumed an estimated life of four years for its non-compete agreements. Deferred financing costs are amortized through interest expense over the contractual term of the underlying borrowings utilizing the effective interest method. The Company periodically reviews the estimated useful lives of its identifiable intangible assets, taking into consideration any events or circumstances that might result in a reduction in fair value or a revision of those estimated useful lives.

Amortization of customer contracts and relationships, exclusive license agreements, and non-compete agreements totaled $9.2 million and $2.3 million for the three month periods ended September 30, 2007 and 2006, respectively, and $14.1 million and $9.6 million for the nine month periods ended September 30, 2007 and 2006, respectively. Included in the 2007 quarter-to-date and year-to-date amounts is approximately $5.2 million and $5.3 million, respectively, of additional amortization expense related to impairments associated with certain contract-based intangible assets. Of these amounts, approximately $5.1 million relates to an impairment recorded for a single merchant contract acquired in 2004. The Company has been in discussions with this particular merchant customer regarding additional services that could be offered under the existing contract to increase the number of transactions conducted on, and cash flows generated by, the underlying ATMs. However, the Company was unable to make any progress in this regard during the three month period ended September 30, 2007, and, based on discussions that have been held with this merchant, has concluded that the likelihood of being able to provide such additional services has decreased considerably. Furthermore, average monthly transaction volumes associated with this particular contract have continued to decrease in 2007 when compared to the same period last year. Accordingly, the Company concluded that the above impairment charge was warranted as of September 30, 2007. The impairment charge recorded served to write-off the remaining unamortized intangible asset associated with this merchant. Management plans to continue to work with this merchant customer to offer the additional services, which management believes could significantly increase the future cash flows earned under this contract. Absent its ability to do this, management will attempt to restructure the terms of the existing contract in an effort to improve the underlying cash flows associated with the contract.

Included in the 2006 year-to-date figure is approximately $2.8 million of additional impairment expense related to the acquired BAS Communications, Inc. (BASC) ATM portfolio. This impairment, taken in the in first quarter of 2006, was attributable to the anticipated reduction in future cash flows resulting from a higher than anticipated attrition rate associated with such portfolio. In January 2007, the Company received approximately $0.8 million in net proceeds from an escrow account established upon the initial closing of this acquisition. Such proceeds were meant to compensate the Company for the attrition issues experienced in the BASC portfolio subsequent to the acquisition date. Such amount was utilized to reduce the remaining carrying value of the intangible asset amount associated with this portfolio.

CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization of deferred financing costs and bond discount totaled approximately $0.4 million for the three month periods ended September 30, 2007 and 2006, and $1.2 million and $1.6 million for the nine month periods ended September 30, 2007 and 2006, respectively. Included in the 2006 year-to-date figure is approximately $0.5 million in deferred financing costs written off in February 2006 in connection with certain modifications made to the Company s existing revolving credit facilities.

Estimated amortization expense for the Company s intangible assets with definite lives for the remaining three months of 2007 and each of the next five years and thereafter is as follows:

	Customer Contracts and Relationships	Deferred Financing Costs	Exclusive License Agreements	Non-compete Agreements	Total
			(In thousands)		
2007	$ 4,171	$ 357	$ 173	$ 6	$ 4,707
2008	16,698	1,516	633	25	18,872
2009	16,384	1,628	628	25	18,665
2010	14,941	1,752	531	2	17,226
2011	13,120	1,891	417		15,428
2012	11,909	1,751	349		14,009
Thereafter	40,193	1,066	254		41,513
Total	$ 117,416	$ 9,961	$ 2,985	$ 58	$ 130,420

6. Accounts Payable and Accrued Liabilities

The Company s accounts payable and accrued liabilities consisted of the following:

	September 30, 2007	December 31, 2006
	(In thousands)	
Accounts payable	$ 28,478	$ 16,915
Accrued merchant fees	11,741	7,915
Accrued interest	5,759	7,954
Accrued cash management fees	6,632	2,740
Accrued armored fees	5,097	3,242
Accrued maintenance fees	3,000	2,090
Accrued compensation	2,806	3,499

Accrued purchases		2,581		343
Accrued ATM telecommunications fees		1,665		650
Other accrued expenses		11,259		5,908
Total	$	79,018	$	51,256

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CARDTRONICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Long-term Debt

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

	September 30, 2007	December 31, 2006
	(In thousands)	
Revolving credit facility	$ 105,600	$ 53,100
Senior subordinated notes issued in 2005 and due August 2013 (net of unamortized discount of $1.1 million as of September 30, 2007 and $1.2 million as of December 31, 200		