

CARDTRONICS INC
Form 10-Q
October 29, 2015

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 September 30, 2015

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.)

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

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

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

Yes No

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

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

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

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

Common Stock, par value: \$0.0001 per share. Shares outstanding on October 27, 2015: 44,911,573

CARDTRONICS, INC.

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When we refer to “us,” “we,” “our,” or “ours,” we are describing Cardtronics, Inc. and/or our subsidiaries, depending on the context in which the statements are made.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,483	\$ 31,875
Accounts and notes receivable, net of allowance of \$1,752 and \$1,082 as of September 30, 2015 and December 31, 2014, respectively	91,836	80,321
Inventory, net	10,512	5,971
Restricted cash	50,833	20,427
Current portion of deferred tax asset, net	20,535	24,303
Prepaid expenses, deferred costs, and other current assets	36,169	34,508
Total current assets	228,368	197,405
Property and equipment, net	375,770	335,795
Intangible assets, net	168,046	177,540
Goodwill	552,055	511,963
Deferred tax asset, net	12,607	10,487
Prepaid expenses, deferred costs, and other noncurrent assets	20,549	22,600
Total assets	\$ 1,357,395	\$ 1,255,790
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ —	\$ 35
Current portion of other long-term liabilities	36,325	34,937
Accounts payable	27,396	35,984
Accrued liabilities	201,322	179,966
Total current liabilities	265,043	250,922
Long-term liabilities:		
Long-term debt	635,970	612,662
Asset retirement obligations	54,980	52,039
Deferred tax liability, net	12,716	15,916
Other long-term liabilities	46,176	37,716
Total liabilities	1,014,885	969,255

Commitments and contingencies

Stockholders' equity:

Common stock, \$0.0001 par value; 125,000,000 shares authorized; 52,073,357 and 51,596,360 shares issued as of September 30, 2015 and December 31, 2014, respectively; 44,900,992 and 44,562,122 shares outstanding as of September 30, 2015 and December 31, 2014, respectively	5	5
Additional paid-in capital	368,292	352,166
Accumulated other comprehensive loss, net	(90,025)	(83,007)
Retained earnings	171,066	118,817
Treasury stock: 7,172,365 and 7,034,238 shares at cost as of September 30, 2015 and December 31, 2014, respectively	(102,445)	(97,835)
Total parent stockholders' equity	346,893	290,146
Noncontrolling interests	(4,383)	(3,611)
Total stockholders' equity	342,510	286,535
Total liabilities and stockholders' equity	\$ 1,357,395	\$ 1,255,790

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
ATM operating revenues	\$ 296,836	\$ 256,779	\$ 842,295	\$ 746,970
ATM product sales and other revenues	14,514	9,068	54,702	23,978
Total revenues	311,350	265,847	896,997	770,948
Cost of revenues:				
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization of intangible assets shown separately below. See Note 1)	185,142	167,306	537,183	490,445
Cost of ATM product sales and other revenues	13,892	8,872	50,193	23,436
Total cost of revenues	199,034	176,178	587,376	513,881
Gross profit	112,316	89,669	309,621	257,067
Operating expenses:				
Selling, general, and administrative expenses	35,759	27,683	100,829	80,136
Acquisition and divestiture-related expenses	13,289	2,299	21,207	13,028
Depreciation and accretion expense	22,127	18,949	64,142	56,892
Amortization of intangible assets	10,048	7,965	29,040	24,647
(Gain) loss on disposal of assets	(12,139)	1,078	(12,425)	1,662
Total operating expenses	69,084	57,974	202,793	176,365
Income from operations	43,232	31,695	106,828	80,702
Other expense:				
Interest expense, net	5,033	5,423	14,496	16,167
Amortization of deferred financing costs and note discount	2,859	4,895	8,455	10,342
Redemption costs for early extinguishment of debt	—	7,722	—	9,075
Other expense (income)	1,067	1,665	2,882	(3,565)
Total other expense	8,959	19,705	25,833	32,019
Income before income taxes	34,273	11,990	80,995	48,683
Income tax expense	12,629	4,397	29,837	18,185
Net income	21,644	7,593	51,158	30,498
Net loss attributable to noncontrolling interests	(365)	(471)	(1,081)	(1,120)
Net income attributable to controlling interests and available to common stockholders	\$ 22,009	\$ 8,064	\$ 52,239	\$ 31,618
Net income per common share – basic	\$ 0.49	\$ 0.18	\$ 1.17	\$ 0.71
Net income per common share – diluted	\$ 0.48	\$ 0.18	\$ 1.15	\$ 0.70
Weighted average shares outstanding – basic	44,833,117	44,370,460	44,769,661	44,304,092
Weighted average shares outstanding – diluted	45,391,667	44,903,657	45,323,784	44,830,780

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 21,644	\$ 7,593	\$ 51,158	\$ 30,498
Unrealized (loss) gain on interest rate swap contracts, net of deferred income tax benefit (expense) of \$4,460 and \$(4,968) for the three months ended September 30, 2015 and 2014, respectively, and \$2,752 and \$(4,875) for the nine months ended September 30, 2015 and 2014, respectively	(7,117)	7,687	(4,273)	7,307
Foreign currency translation adjustments	(13,502)	(8,098)	(2,745)	(3,929)
Other comprehensive (loss) income	(20,619)	(411)	(7,018)	3,378
Total comprehensive income	1,025	7,182	44,140	33,876
Less: comprehensive income (loss) attributable to noncontrolling interests	1,570	(421)	965	(1,085)
Comprehensive (loss) income attributable to controlling interests	\$ (545)	\$ 7,603	\$ 43,175	\$ 34,961

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

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 51,158	\$ 30,498
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion, and amortization of intangible assets	93,182	81,539
Amortization of deferred financing costs and note discount	8,455	10,342
Stock-based compensation expense	14,263	11,485
Deferred income taxes	2,233	(1,811)
(Gain) loss on disposal of assets	(12,425)	1,662
Other reserves and non-cash items	2,680	9,911
Changes in assets and liabilities:		
Increase in accounts and note receivable, net	(1,621)	(7,603)
Increase in prepaid, deferred costs, and other current assets	(4,373)	(8,073)
Increase in inventory	(4,915)	(2,817)
(Increase) decrease in other assets	(6,832)	714
Decrease in accounts payable	(8,402)	(11,536)
Increase (decrease) in accrued liabilities	10,832	(7,351)
Increase (decrease) in other liabilities	2,877	(3,900)
Net cash provided by operating activities	147,112	103,060
Cash flows from investing activities:		
Additions to property and equipment	(99,987)	(63,169)
Payments for exclusive license agreements, site acquisition costs, and other intangible assets	(3,890)	(1,909)
Acquisitions, net of cash acquired	(103,874)	(8,803)
Sale of assets and businesses	36,661	—
Net cash used in investing activities	(171,090)	(73,881)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	—	250,000
Repayment of long-term debt	—	(200,000)
Proceeds from borrowings under revolving credit facility	340,250	—
Repayments of borrowings under revolving credit facility	(324,186)	(4,431)
Repayments of borrowings under bank overdraft facility, net	(30)	(1,402)
Debt issuance, modification, and redemption costs	—	(14,750)
Payment of contingent consideration	—	(516)
Proceeds from exercises of stock options	586	331
Excess tax benefit from stock-based compensation expense	1,287	3,084
Repurchase of capital stock	(4,610)	(6,684)
Net cash provided by financing activities	13,297	25,632

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Effect of exchange rate changes on cash	(2,711)	(889)
Net (decrease) increase in cash and cash equivalents	(13,392)	53,922
Cash and cash equivalents as of beginning of period	31,875	86,939
Cash and cash equivalents as of end of period	\$ 18,483	\$ 140,861
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 17,345	\$ 19,170
Cash paid for income taxes	\$ 19,411	\$ 23,360

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

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

(1) General and Basis of Presentation

General

Cardtronics, Inc., along with its wholly and majority-owned subsidiaries (collectively, the "Company") provides convenient automated consumer financial services through its network of automated teller machines ("ATMs") and multi-function financial services kiosks. As of September 30, 2015, the Company provided services to approximately 190,000 devices across its portfolio, which included approximately 168,700 devices located in all 50 states of the United States ("U.S.") (including the U.S. territory of Puerto Rico), approximately 15,700 devices throughout the United Kingdom ("U.K."), approximately 1,100 devices throughout Germany and Poland, approximately 3,100 devices throughout Canada, and approximately 1,400 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. The total count of 190,000 devices also includes devices for which the Company provides processing only services and various forms of managed services solutions, which may include 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 BBVA Compass Bancshares, Inc., Citibank, N.A., Citizens Financial Group, Inc., Cullen/Frost Bankers, Inc., Santander Bank, N.A., and PNC Bank, N.A. in the U.S. and The Bank of Nova Scotia ("Scotiabank") in Canada and Puerto Rico. In Mexico, the Company partners with Bansi, S.A. Institución de Banca Múltiple ("Bansi"), a regional bank in Mexico and a noncontrolling interest owner in Cardtronics Mexico, S.A. de C.V. ("Cardtronics Mexico"), as well as with Grupo Financiero Banorte, S.A. de C.V. ("Banorte") and Scotiabank to place their brands on the Company's ATMs in exchange for certain services provided by them. As of September 30, 2015, approximately 22,000 of the Company's ATMs were under contract with approximately 500 financial institutions to place their logos on the Company's ATMs 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 approximately 55,000 participating ATMs globally, provides surcharge-free ATM access to customers of approximately 1,300 participating financial institutions that may 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. The Allpoint network includes a majority of the Company’s ATMs in the U.S. and a portion of the Company’s ATMs in the U.K., Canada, Puerto Rico, and Mexico. 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. Additionally, through its recent acquisition of Columbus Data Services, L.L.C. (“CDS”),

Cardtronics provides leading-edge ATM processing solutions to ATM sales and service organizations and financial institutions.

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, 2014 (the "2014 Form 10-K"), which includes a summary of the Company's significant accounting policies and other disclosures.

The financial statements as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 are unaudited. The Consolidated Balance Sheet as of December 31, 2014 was derived from the audited balance sheet filed in the 2014 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 nine months ended September 30, 2015 and 2014 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 the Company and its wholly and majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. The Company owns a majority (51.0%) interest in, and realizes a majority of the earnings and/or losses of, Cardtronics Mexico, thus 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.

Restricted Cash

The balance characterized as restricted cash consists of amounts collected on behalf of, but not yet remitted to, certain of the Company's merchant customers or third-party service providers. The amounts include deposits held by the Company for transactions processed by its customers, as well as surcharge and interchange fees earned by the Company's customers on transactions processed. These balances are classified as Restricted cash in Current assets in the Company's Consolidated Balance Sheets based on when the Company expects this cash to be paid. The Company held \$50.8 million and \$20.4 million of restricted cash in current assets as of September 30, 2015 and December 31, 2014, respectively. The increase in restricted cash from December 31, 2014 to September 30, 2015 is mostly attributable to settlement balances associated with the acquisition of CDS, on July 1, 2015. These assets are offset by accrued liability balances in the current liability section of our balance sheet.

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		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
	(In thousands)			
Depreciation and accretion expenses related to ATMs and ATM-related assets	\$ 17,135	\$ 15,926	\$ 48,731	\$ 47,781
Amortization of intangible assets	10,048	7,965	29,040	24,647
Total depreciation, accretion, and amortization of intangible assets excluded from Cost of ATM operating revenues and Gross profit	\$ 27,183	\$ 23,891	\$ 77,771	\$ 72,428

(2) Acquisitions and Divestitures

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 Company completed its purchase accounting for Automated Financial in February 2015, which did not result in any significant adjustments.

On October 6, 2014, the Company completed the acquisition of Welch ATM (“Welch”), an Illinois-based provider of ATM services to approximately 26,000 ATMs. The total purchase consideration was approximately \$159.4 million, which included cash of \$154.0 million and deferred purchase consideration of \$5.4 million. In addition, many of the Welch ATMs are under contract with financial institutions to carry their brand and logo on the ATM, which has further enhanced the Company's surcharge-free product offerings.

The Welch purchase consideration was allocated to the assets acquired and liabilities assumed, including identifiable tangible and intangible assets, based on their respective fair values at the date of acquisition. The fair values of the

intangible assets acquired included customer relationships valued at \$52.5 million, estimated utilizing a discounted cash flow approach, with the assistance of an independent appraisal firm. The fair values of the tangible assets acquired included property, plant, and equipment valued at \$11.3 million, estimated utilizing the market and cost approaches. The purchase price allocation resulted in goodwill of approximately \$103.7 million, all of which has been assigned to the Company's North America reporting segment. The recognized goodwill is primarily attributable to expected synergies. All of the goodwill and intangible asset amounts are expected to be deductible for income tax purposes. The Company completed the purchase accounting for Welch in September 2015, recognizing immaterial final adjustments to the previously estimated amounts recorded for goodwill and intangibles.

On November 3, 2014, the Company completed the acquisition of Sunwin Services Group (“Sunwin”) in the U.K., a subsidiary of the Co-operative Group (“Co-op”), for aggregate cash consideration of approximately £41.5 million or approximately \$66.4 million. Sunwin’s primary business is providing secure cash logistics and ATM maintenance services to ATMs and other services to retail locations. The Company also acquired approximately 2,000 ATMs from Co-op Bank and secured an exclusive ATM operating agreement to operate ATMs at Co-op Food locations. The Company has accounted for these transactions as if they were all related due to the timing of the transactions being completed and the dependency of the transactions on each other. The Company completed the purchase accounting for Sunwin in June 2015 recognizing immaterial final adjustments to the preliminary opening balance sheet and the settlement of final working capital adjustments.

On July 1, 2015, the Company completed the divestiture of its retail cash-in-transit operation in the U.K. This operation, which mainly relates to the collection of cash by couriers at retail locations, was originally acquired through the Sunwin acquisition discussed above and not deemed to be a core part of the Company’s on-going strategy. The Company is expected to receive estimated proceeds of approximately £23.2 million, or approximately \$36.0 million, on the sale

transaction. A portion of the total proceeds from the sale are subject to certain conditions related to customer transition and other matters, and as a result, the Company has recorded the estimated fair value of the consideration. Of the amount expected to be received, £18.7 million, or approximately \$29.1 million, was received by September 30, 2015. The net pre-tax gain recognized on this transaction was \$14.7 million as of September 30, 2015. The net gain is included in the (Gain) loss on disposal of assets line item on the accompanying Consolidated Statements of Operations. The major classes of assets and liabilities sold included: tangible assets with a carrying value of \$6.8 million and goodwill and intangible assets with a combined carrying values of \$14.5 million. Prior to the sale, the operation was part of the Company's Europe operating segment.

In conjunction with the U.K. divestiture activities discussed above, and to optimize the remaining ATM-related infrastructure, the Company closed six cash depots that were not part of the sale but were no longer necessary or economical to operate based on the remaining work at these facilities. The Company wrote-off certain assets in these facilities, recording approximately \$3.0 million in disposal losses, included in the (Gain) loss on disposal of assets line on the accompanying Consolidated Statements of Operations. Upon exiting these facilities, the Company recognized lease exit costs of \$1.4 million and employee severance costs of \$2.3 million. The Company also recorded approximately \$3.1 million in operating costs related to the six closed depots that were no longer profitable to operate as a result of the sale of the retail cash-in-transit operation. These costs and other costs totaling \$10.7 million, including the excess operating costs associated with work that was in transition to other facilities during the period, were recorded within the Acquisition and divestiture-related expense line in the accompanying Consolidated Statements of Operations.

On July 1, 2015, the Company completed the acquisition of CDS for a total purchase price of approximately \$80.6 million. CDS is a leading independent transaction processor for ATM deployers and payment card issuers, providing leading-edge solutions to ATM sales and service organizations and financial institutions. CDS now operates as a separate division of the Company.

The total purchase consideration for CDS was preliminarily allocated to the assets acquired and liabilities assumed, including identifiable tangible and intangible assets, based on their respective fair values at the date of acquisition. The preliminary fair values of the intangible assets included the acquired customer relationships valued at \$15.7 million, technology valued at \$7.8 million, and other intangibles assets of \$1.7 million. Intangible values were estimated utilizing primarily a discounted cash flow approach, with the assistance of an independent appraisal firm. The preliminary fair values of the tangible assets acquired included property, plant, and equipment and were valued at \$4.6 million, estimated utilizing the market and cost approaches. The preliminary purchase price allocation resulted in goodwill of \$53.5 million, all of which has been assigned to the Company's North America reporting segment. The recognized goodwill is primarily attributable to expected synergies. All of the goodwill and intangible asset amounts are expected to be deductible for income tax purposes.

(3) Stock-Based Compensation

The Company accounts for its stock-based compensation by recognizing the grant date fair value of stock-based awards, net of estimated forfeitures, as compensation expense over the underlying requisite service periods of the related awards. The grant date fair value is based upon the Company's stock price on the date of grant. The following table reflects the total stock-based compensation expense amounts included in the accompanying Consolidated Statements of Operations:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(In thousands)			
Cost of ATM operating revenues	\$ 277	\$ 337	\$ 775	\$ 904
Selling, general, and administrative expenses	4,876	4,231	13,488	10,581
Total stock-based compensation expense	\$ 5,153	\$ 4,568	\$ 14,263	\$ 11,485

The increase in stock-based compensation expense was due to additional expense recognition related to additional grants made during the periods. All grants during the periods above were made under the Company's Second Amended and Restated 2007 Stock Incentive Plan (the "2007 Plan").

Restricted Stock Awards. The number of the Company's outstanding Restricted Stock Awards ("RSAs") as of September 30, 2015, and changes during the nine months ended September 30, 2015, are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
RSAs outstanding as of January 1, 2015	83,028	\$ 27.06
Granted	—	\$ —
Vested	(28,943)	\$ 26.56
Forfeited	(3,500)	\$ 28.69
RSAs outstanding as of September 30, 2015	50,585	\$ 27.24

As of September 30, 2015, the unrecognized compensation expense associated with all outstanding RSAs was approximately \$0.7 million, which will be recognized on a straight-line basis over a remaining weighted average vesting period of approximately 1.4 years.

Restricted Stock Units. The Company grants restricted stock units ("RSUs") under its Long-term Incentive Plan ("LTIP"), which is an annual equity award program under the 2007 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. A portion of the awards have only a service-based vesting schedule ("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 50.0%, 25.0%, and 25.0%, respectively. Performance-RSUs will be earned only if the Company achieves certain performance levels. Although the Performance-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 September 30, 2015, and changes during the nine months ended September 30, 2015, are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested RSUs as of January 1, 2015	786,797	\$ 29.17
Granted	558,678	\$ 38.40
Vested	(419,895)	\$ 27.32
Forfeited	(26,254)	\$ 35.18
Non-vested RSUs as of September 30, 2015	899,326	\$ 35.60

The above table only includes earned RSUs; therefore, the Performance-RSUs granted in 2015 but not yet earned are not included. The number of Performance-RSUs granted at target in 2015, net of forfeitures, was 246,544 units with a grant date fair value of \$38.45 per unit. Time-RSUs are included as granted.

As of September 30, 2015, the unrecognized compensation expense associated with earned RSUs was approximately \$14.0 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 2.2 years.

Options. The number of the Company's outstanding stock options as of September 30, 2015, and changes during the nine months ended September 30, 2015, are presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding as of January 1, 2015	183,367	\$ 10.33
Exercised	(57,102)	\$ 10.27
Forfeited	—	\$ —
Options outstanding as of September 30, 2015	126,265	\$ 10.36
Options vested and exercisable as of September 30, 2015	126,265	\$ 10.36

As of September 30, 2015, 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 and nine months ended September 30, 2015 and 2014 included all outstanding stock options, RSAs, and RSUs, which were included in the calculation of diluted earnings per share for these periods, if dilutive. The potentially dilutive effect of outstanding warrants and the underlying shares exercisable under the Company's convertible notes were excluded from diluted shares outstanding because the exercise price exceeded the average market price of the Company's common stock. The effect of the note hedge the Company purchased to offset the underlying conversion option embedded in its convertible notes was also excluded, as the effect is anti-dilutive.

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 and nine months ended September 30, 2015 and 2014 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 September 30, 2015			Three Months Ended September 30, 2014		
	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	\$ 22,009			\$ 8,064		
Less: Undistributed earnings allocated to unvested RSAs	(28)			(23)		
Net income available to common stockholders	\$ 21,981	44,833,117	\$ 0.49	\$ 8,041	44,370,460	\$ 0.18
Diluted:						
Effect of dilutive securities:						
Add: Undistributed earnings allocated to restricted shares	\$ 28			\$ 23		
Stock options added to the denominator under the treasury stock method		60,693			114,872	
RSUs added to the denominator under the treasury stock method		497,857			418,325	
Less: Undistributed earnings reallocated to RSAs	(27)			(23)		
Net income available to common stockholders and assumed conversions	\$ 21,982	45,391,667	\$ 0.48	\$ 8,041	44,903,657	\$ 0.18

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	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	\$ 52,239			\$ 31,618		
	(79)			(120)		

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Less: Undistributed earnings allocated to unvested RSAs						
Net income available to common stockholders	\$	52,160	44,769,661	\$ 1.17	\$	31,498 44,304,092 \$ 0.71
Diluted:						
Effect of dilutive securities:						
Add: Undistributed earnings allocated to restricted shares	\$	79			\$	120
Stock options added to the denominator under the treasury stock method			68,245			123,743
RSUs added to the denominator under the treasury stock method			485,878			402,945
Less: Undistributed earnings reallocated to RSAs		(78)				(119)
Net income available to common stockholders and assumed conversions	\$	52,161	45,323,784	\$ 1.15	\$	31,499 44,830,780 \$ 0.70

The computation of diluted earnings per share excluded potentially dilutive common shares related to restricted stock issued by the Company under RSAs of 27,052 and 32,106 shares for the three and nine months ended September 30, 2015, respectively, and 54,161 and 68,665 for the three and nine months ended September 30, 2014, 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 and nine months ended September 30, 2015:

	Foreign currency translation adjustments (In thousands)	Unrealized (losses) gains on interest rate swap contracts	Total
Total accumulated other comprehensive loss, net as of July 1, 2015	\$ (23,952)	(45,454)(1)	\$ (69,406)
Other comprehensive loss before reclassification	(13,502)	(15,762)(2)	(29,264)
Amounts reclassified from accumulated other comprehensive loss, net	—	8,645 (2)	8,645
Net current period other comprehensive loss	(13,502)	(7,117)	(20,619)
Total accumulated other comprehensive loss, net as of September 30, 2015	\$ (37,454)	\$ (52,571)(1)	\$ (90,025)

(1) Net of deferred income tax benefit of \$9,453 and \$4,993 as of September 30, 2015 and July 1, 2015, respectively.

(2) Net of deferred income tax benefit (expense) of \$9,877 and \$(5,417) for Other comprehensive loss before reclassification and Amounts reclassified from accumulated other comprehensive loss, net, respectively. See Note 11. Derivative Financial Instruments.

	Foreign currency translation adjustments (In thousands)	Unrealized (losses) gains on interest rate swap contracts	Total
Total accumulated other comprehensive loss, net as of January 1, 2015	\$ (34,709)	\$ (48,298)(1)	\$ (83,007)
Other comprehensive loss before reclassification	(2,745)	(30,107)(2)	(32,852)
Amounts reclassified from accumulated other comprehensive loss, net	—	25,834 (2)	25,834
Net current period other comprehensive loss	(2,745)	(4,273)	(7,018)
Total accumulated other comprehensive loss, net as of September 30, 2015	\$ (37,454)	\$ (52,571)(1)	\$ (90,025)

-
- (1) Net of deferred income tax benefit of \$9,453 and \$6,701 as of September 30, 2015 and January 1, 2015, respectively.
 - (2) Net of deferred income tax benefit (expense) of \$19,392 and \$(16,640) for Other comprehensive loss before reclassification and Amounts reclassified from accumulated other comprehensive loss, net, respectively. See Note 11. Derivative Financial Instruments.

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 amounts reclassified from Accumulated other comprehensive loss, net, are recognized in the Cost of ATM operating revenues line item on the accompanying Consolidated Statements of Operations.

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 nine months ended September 30, 2015, by segment:

	Goodwill		
	North	Europe (2)	Total
	America (1)		
	(In thousands)		
Balance as of January 1, 2015:			
			\$
Gross balance	\$ 398,977	\$ 162,989	561,966
Accumulated impairment loss	—	(50,003)	(50,003)
	\$ 398,977	\$ 112,986	\$ 511,963
Acquisitions	53,519	—	53,519
Divestitures	—	(13,342)	(13,342)
Purchase price adjustments	1,051	915	1,966
Foreign currency translation adjustments	(451)	(1,600)	(2,051)
Balance as of September 30, 2015:			
			\$
Gross balance	\$ 453,096	\$ 148,962	602,058
Accumulated impairment loss	—	(50,003)	(50,003)
	\$ 453,096	\$ 98,959	\$ 552,055

(1) The North America segment is comprised of the Company's operations in the U.S., Canada, Mexico, and Puerto Rico.

(2) The Europe segment is comprised of the Company's operations in the U.K., Germany, and Poland.

Trade Name: indefinite-lived
 North
 America Europe
 (1) (2) Total
 (In thousands)

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Balance as of January 1, 2015	\$ 728	\$ —	\$ 728
Acquisitions	1,700	—	1,700
Foreign currency translation adjustments	(15)	—	(15)
Balance as of September 30, 2015	\$ 2,413	\$ —	\$ 2,413

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- (1) The North America segment is comprised of the Company's operations in the U.S., Canada, Mexico, and Puerto Rico.
- (2) The Europe segment is comprised of the Company's operations in the U.K., Germany, and Poland.

Intangible Assets with Definite Lives

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

	September 30, 2015		Net Carrying Amount	December 31, 2014		Net Carrying Amount
	Gross Carrying Amount (In thousands)	Accumulated Amortization		Gross Carrying Amount (In thousands)	Accumulated Amortization	
Customer and branding contracts/relationships	\$ 350,825	\$ (211,538)	\$ 139,287	\$ 338,830	\$ (186,185)	\$ 152,645
Deferred financing costs	16,521	(7,444)	9,077	16,127	(5,851)	10,276
Non-compete agreements	4,484	(3,857)	627	4,568	(3,374)	1,194
Technology	10,587	(3,209)	7,378	2,803	(2,025)	778
Trade name: definite-lived	11,936	(2,672)	9,264	13,702	(1,783)	11,919
	\$			\$		\$
Total	394,353	\$ (228,720)	\$ 165,633	\$ 376,030	\$ (199,218)	\$ 176,812

(7) Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Accrued merchant settlement (1)	\$ 49,342	\$ 9,869
Accrued merchant fees	43,466	39,473
Accrued taxes	17,558	14,623
Accrued purchases	14,223	10,001
Accrued compensation	12,963	18,050
Accrued cash management fees	10,828	8,235
Accrued maintenance	6,896	8,945

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Accrued processing costs	6,014	1,957
Accrued armored	5,145	4,876
Accrued interest	3,507	6,128
Accrued interest on interest rate swaps	2,808	3,001
Accrued telecommunications costs	1,874	2,613
Deferred acquisition purchase price (2)	—	20,580
Other accrued expenses	26,698	31,615
Total	\$ 201,322	\$ 179,966

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- (1) The increase in accrued merchant settlement from December 31, 2014, is largely attributable to merchant settlements owed by the CDS business acquired on July 1, 2015.
- (2) This category represents purchase price consideration on the Sunwin acquisition that was paid during the first nine months of 2015.

(8) Long-Term Debt

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

	September 30, 2015	December 31, 2014
	(In thousands)	
Revolving credit facility, including swingline credit facility (weighted average combined interest rate of 2.0% and 2.2% as of September 30, 2015 and December 31, 2014, respectively)	\$ 153,750	\$ 137,292
5.125% Senior notes due August 2022	250,000	250,000
1.00% Convertible senior notes due December 2020, net of discount	232,220	225,370
Other	—	35
Total	635,970	612,697
Less: current portion	—	35
	\$	\$
Total long-term debt, excluding current portion	635,970	612,662

Revolving Credit Facility

On May 26, 2015, the Company entered into a second amendment (the "Second Amendment") to its amended and restated credit agreement (the "Credit Agreement"). The Credit Agreement provides for a \$375.0 million revolving credit facility and includes an accordion feature that will allow the Company to increase the available borrowings under the revolving credit facility to \$500.0 million, subject to the approval of one or more existing lenders or one or more lenders that become party to the Credit Agreement. Under the Second Amendment, a new \$75.0 million tranche (the "European Commitments") was created under which Cardtronics Europe Limited ("Cardtronics Europe"), a subsidiary of the Company, can borrow directly from the existing lenders in different currencies. The Second Amendment provides for sub-limits under the European Commitments of \$15.0 million for swingline loans and \$15.0 million for letters of credit. In addition, the Second Amendment reduces the commitments of the lending parties to make loans to the Company (the "U.S. Commitments") from \$375.0 million to \$300.0 million and reduced the alternative currency sub-limit to \$75.0 million, from \$125.0 million under the Credit Agreement. The letter of credit sub-limit and the swingline sub-limit under the U.S. Commitments remain at \$30.0 million and \$25.0 million, respectively, under the Second Amendment. The Credit Agreement expires in April 2019.

Borrowings (not including swingline loans and alternative currency loans) under the revolving credit facility accrue interest at the Company's option at either the Alternate Base Rate (as defined in the Credit Agreement) or the Adjusted LIBO Rate (as defined in the Credit Agreement) plus a margin depending on the Company's most recent Total Net Leverage Ratio (as defined in the Credit Agreement). The margin for Alternative Base Rate loans varies between 0% to 1.25% and the margin for Adjusted LIBO Rate loans varies between 1.00% to 2.25%. Swingline loans denominated

in U.S. dollars bear interest at the Alternate Base Rate plus a margin as described above and swingline loans denominated in alternative currencies bear interest at the Overnight LIBO Rate (as defined in the credit agreement) plus the applicable margin for the Adjusted LIBO Rate. The alternative currency loans bear interest at the Adjusted LIBO Rate for the relevant currency as described above. Substantially all of the Company's domestic assets, including the stock of its wholly-owned domestic subsidiaries and 66.0% of the stock of the Company's first-tier foreign subsidiaries, are pledged as collateral to secure borrowings made under the revolving credit facility. Furthermore, each of the Company's material wholly-owned domestic subsidiaries has guaranteed the full and punctual payment of the obligations under the revolving credit facility. The European Commitments are also secured by the assets of the Company's foreign subsidiaries, which do not guarantee the obligations of the Company's domestic subsidiaries. There are currently no restrictions on the ability of the Company's subsidiaries to declare and pay dividends to the Company.

The Credit Agreement contains representations, warranties and covenants that are customary for similar credit arrangements, including, among other things, covenants relating to (i) financial reporting and notification, (ii) payment of obligations, (iii) compliance with applicable laws, and (iv) notification of certain events. Financial covenants in the Credit Agreement require the Company to maintain: (i) as of the last day of any fiscal quarter, a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) of no more than 2.25 to 1.00; (ii) as of the last day of any fiscal quarter, a Total Net Leverage Ratio of no more than 4.00 to 1.00; and (iii) as of the last day of any fiscal quarter, a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of no less than 1.50 to 1.0. Additionally, the Company is limited on the amount

of restricted payments, including dividends, which it can make pursuant to the terms of the Credit Agreement; however, the Company may generally make restricted payments so long as no event of default exists at the time of such payment and the total net leverage ratio is less than 3.0 to 1.0 at the time such restricted payment is made.

As of September 30, 2015, the Company was in compliance with all applicable covenants and ratios under the Credit Agreement.

As of September 30, 2015, the Company's outstanding balance on the revolving credit facility was \$153.8 million, of which \$126.0 million was outstanding under the U.S. Commitments and \$27.8 million was outstanding under the European Commitments. The available borrowing capacity under the revolving credit facility totaled approximately \$221.2 million, of which \$174.0 million is available to the U.S. and \$47.2 million is available to Cardtronics Europe.

\$250.0 Million 5.125% Senior Notes Due 2022

On July 28, 2014, in a private placement offering, the Company issued \$250.0 million in aggregate principal amount of 5.125% senior notes due 2022 (the "2022 Notes") pursuant to an indenture dated July 28, 2014 (the "Indenture") among the Company, its subsidiary guarantors (the "Guarantors") and Wells Fargo Bank, National Association, as trustee. Interest on the 2022 Notes is payable semi-annually in cash in arrears on February 1 and August 1 of each year, and commenced on February 1, 2015. Pursuant to a registration rights agreement, on June 5, 2015, the Company and the Guarantors filed a registration statement with the SEC to allow the holders of the 2022 Notes to exchange such notes for registered notes that have substantially identical terms to the 2022 Notes. This exchange offer commenced June 17, 2015 and resulted in all 2022 Notes being exchanged for registered notes.

The 2022 Notes and Guarantees (as defined in the Indenture) rank (i) equally in right of payment with all of the Company's and the Guarantors' existing and future senior indebtedness, (ii) effectively junior to secured debt to the extent of the collateral securing such debt, including debt under the Company's revolving credit facility and (iii) structurally junior to existing and future indebtedness of the Company's non-guarantor subsidiaries. The 2022 Notes and Guarantees rank senior in right of payment to any of the Company's and the Guarantors' existing and future subordinated indebtedness.

The 2022 Notes contain covenants that, among other things, limit the Company's ability and the ability of certain of its restricted subsidiaries to incur or guarantee additional indebtedness; make certain investments or pay dividends or distributions on the Company's capital stock or repurchase capital stock or make certain other restricted payments; consolidate or merge with or into other companies; conduct asset sales; restrict dividends or other payments by restricted subsidiaries; engage in transactions with affiliates or related persons; and create liens.

The 2022 Notes are fully and unconditionally guaranteed, subject to certain customary release provisions, on a joint and several basis by certain wholly owned domestic subsidiaries. The guarantees of the 2022 Notes by any Guarantor are subject to automatic and customary releases upon: (i) the sale or disposition of all or substantially all of the assets of the Guarantor; (ii) the disposition of sufficient capital stock of the Guarantor so that it no longer qualifies under the Indenture as a restricted subsidiary of the Company; (iii) the designation of the Guarantor as unrestricted in accordance with the Indenture; (iv) the legal or covenant defeasance of the notes or the satisfaction and discharge of the Indenture; (v) the liquidation or dissolution of the Guarantor; or (vi) provided the Guarantor is not wholly owned by the Company, its ceasing to guarantee other debt of the Company or another Guarantor. A Guarantor may not sell or otherwise dispose of all or substantially all of its properties or assets to, or consolidate with or merge with or into, another company (other than the Company or another Guarantor), unless no default under the Indenture exists and either the successor to the Guarantor assumes its guarantee of the 2022 Notes or the disposition, consolidation or merger complies with the "Asset Sales" covenant in the Indenture.

\$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 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 Convertible 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 a repurchase of 665,994 shares of its outstanding common stock concurrent with the offering. The Company used a portion of the net proceeds from the offering to fund 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, concurrent 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. 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. 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 corresponded 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: (i) any time on or after September 1, 2020; (ii) 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; (iii) 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; (iv) upon specified distributions to the Company's shareholders upon recapitalizations, reclassifications or changes in stock; and (v) upon a make-whole fundamental change. A fundamental change is defined as any one of the following: (i) 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; (ii) 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; (iii) the Company engages in any share exchange, consolidation or merger where the common stock is converted into cash, securities or other property; (iv) the Company engages in any sales, lease or other transfer of all or substantially all of the consolidated assets; or (v) the Company's stock is not listed for trading on any U.S. national securities exchange.

As of September 30, 2015, none of the contingent conversion thresholds described above were 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 September 30, 2015. 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 September 30,	
	2015	2014
	(In thousands)	
Cash interest per contractual coupon rate	\$ 719	\$ 719
Amortization of note discount	2,313	2,195
Amortization of deferred financing costs	142	133
Total interest expense related to Convertible Notes	\$ 3,174	\$ 3,047

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	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Cash interest per contractual coupon rate	\$ 2,156	\$ 2,156
Amortization of note discount	6,850	6,510
Amortization of deferred financing costs	413	387
Total interest expense related to Convertible Notes	\$ 9,419	\$ 9,053

The carrying value of the Convertible Notes consisted of the following:

	September 30, 2015	December 31, 2014
	(In thousands)	
Principal balance	\$ 287,500	\$ 287,500
Discount, net of accumulated amortization	(55,280)	(62,130)
Net carrying amount of Convertible Notes	\$ 232,220	\$ 225,370