

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **2006-08-03** | Period of Report: **2006-08-01**
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FILER

HEARTLAND PAYMENT SYSTEMS INC

CIK: **1144354** | IRS No.: **000000000** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **001-32594** | Film No.: **061000019**
SIC: **7389** Business services, nec

Mailing Address
90 NASSAU STREET, 2ND
FLOOR
PRINCETON NJ 08542

Business Address
90 NASSAU STREET, 2ND
FLOOR
PRINCETON NJ 08542
6096833850

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) August 1, 2006

HEARTLAND PAYMENT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

000-51265

22-3755714

(State or other jurisdiction of
incorporation or organization)

(Commission File No)

(I.R.S. Employer
Identification Number)

90 NASSAU STREET, PRINCETON, NEW JERSEY 08542

(Address of principal executive offices) (Zip Code)

(609) 683-3831

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communication pursuant to Rule 14d-2(b) under the

[] Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following information is furnished pursuant to Item 2.02, "Results of Operations and Financial Condition."

On August 3, 2006, Heartland Payment Systems, Inc., a Delaware corporation (the "Company"), issued a press release announcing its financial results for the second quarter ended June 30, 2006. The information contained in this report, including Exhibit 99.1 attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

On August 3, 2006, the Company conducted a properly noticed conference call to discuss its results of operations for the second quarter ended June 30, 2006 and to answer any questions raised by the call's audience.

ITEM 8.01 OTHER EVENTS

Cash Dividend

On August 1, 2006, the board of directors of the Company declared a quarterly cash dividend of \$0.025 per share of Company's common stock, which will be payable on September 15, 2006 to stockholders of record as of August 25, 2006. The press release announcing the cash dividend is furnished as Exhibit 99.1 to this report.

Stock Repurchase

On August 1, 2006, the board of directors of the Company authorized the Company to repurchase up to 1,000,000 shares of its common stock in the open market. This authorization is in addition to the 1,000,000 common shares which the board of directors of the Company had authorized the Company to repurchase on January 17, 2006. Under the January 17, 2006 authorization, the Company had repurchased 873,900 shares of its common stock. The Company intends to use these authorizations to repurchase shares opportunistically as a means of offsetting dilution from the issuance of shares under employee benefit plans. The Company has no obligation to repurchase shares under the authorization, and the specific timing and amount of the stock repurchase will vary based on market conditions, securities law limitations and other factors. The stock repurchase will be

executed utilizing the Company's cash resources including the proceeds of stock options exercises. The press release announcing the stock repurchase is furnished as Exhibit 99.1 to this report.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit Number -----	Description -----
99.1	Press Release of the Company dated August 3, 2006

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 3, 2006

Heartland Payment Systems, Inc.

(Registrant)

By: /s/ Robert H.B. Baldwin, Jr.

Robert H.B. Baldwin, Jr.
Chief Financial Officer

NEWS RELEASE

HEARTLAND PAYMENT SYSTEMS SECOND QUARTER NET INCOME UP 70%,

DILUTED EPS UP 58%, OPERATING INCOME UP 50%

COMPANY INITIATES QUARTERLY DIVIDEND

PRINCETON, N.J., AUGUST 3, 2006 -- Heartland Payment Systems, Inc. (NYSE: HPY), the nation's sixth largest provider of merchant acquiring services, today announced record revenues of \$278.1 million for the quarter ended June 30, 2006, up 33% compared to \$209.7 million in the second quarter of 2005. The company's operating margin expanded by 250 basis points to 19.2% of net revenues (defined as total revenues less interchange and dues and assessments), driving operating income up 50% to \$12.1 million from \$8.1 million in the year earlier period. Net income for the three months was \$7.4 million, or \$0.19 per fully diluted share, increases of 70% and 58%, respectively, compared to net income of \$4.4 million, or \$0.12 per fully diluted share, in the second quarter of 2005. Earnings per share in the second quarter of 2006 are based on a 12% higher average diluted share count than in the same period in 2005.

Robert Carr, Chairman and CEO, said, "Results this quarter were driven by record merchant processing volumes, which grew 29% over the year ago period and reached almost \$11 billion in the second quarter. In addition, our continued use of technology to improve efficiency throughout the organization helped drive our operating margin to a quarterly best 19.2%. On the front end, 78% of new merchants installed and 62% of total transactions processed this quarter were on HPS Exchange. During the second quarter we also completed the conversion to our Passport back end processing platform. Passport provides us with a powerful and versatile tool not only to improve processing and servicing efficiency, but also to create and introduce new products and services that respond to the evolving needs of the market. In addition to our transparent pricing and skilled sales force, small and mid-sized merchants are increasingly choosing Heartland for our innovative solutions that save them time and money."

Processing volume for the three months ended June 30, 2006 increased 29% to \$11.0 billion from \$8.5 billion during the same period in 2005. The Company's active card processing merchant count rose to 124,800 at June 30, 2006, a 23% increase over the past twelve months. Same store sales at our installed base rose 4.8%, below the level of growth the company has experienced in recent years.

COMPANY INITIATES QUARTERLY DIVIDEND; SHARE BUYBACK AUTHORIZATION INCREASED

The Company also declared an initial quarterly dividend of \$0.025 per common share. The dividend is payable to shareholders of record on August 25, 2006 and will be paid on September 15, 2006. It was also announced that the Board of Directors has increased the Company's common stock repurchase authorization by 1,000,000 shares. This authorization is in addition to the 1,000,000 common share buyback the Board authorized on January 17, 2006, of which 873,900 shares have been repurchased.

Commenting on the new dividend and increased repurchase authorization, Mr. Carr said, "I am pleased to announce two programs that will enhance returns to our shareholders. We are initiating a dividend in order to start sharing a portion of our growing free cash flows with our shareholders. With a business model based on generating organic growth, we are capable of both funding continuing market share gains and returning excess cash to shareholders through dividends. At the same time, by doubling our buyback authority, the Board has endorsed the continuation of our existing program to reinvest essentially all of the proceeds of option exercises in Company stock, thus reducing the dilution from such exercises. For the first half of this year, this has meant that over \$20 million of proceeds from option exercises has been invested in Heartland stock."

SIX MONTH RESULTS

For the first six months of 2006, revenues were \$514.9 million, up 36% compared to \$379.6 million for the first six months of fiscal 2005. Net income in the first half of 2006 was \$11.8 million or \$0.30 per fully diluted share, increases of 67% and 50%, respectively, compared to net income of \$7.1 million, or \$0.20 per fully diluted share in the first half of 2005. Earnings per share in the 2006 period are based on a 13% higher average diluted share count than in the same period in 2005.

Mr. Carr continued, "This was another outstanding quarter as growth remained robust, and we made significant strides toward our objective of a better than 20% operating margin. At the same time, we are investing across the organization to strengthen our resources, people, products and infrastructure, to support our existing merchants as well as sustain our momentum."

FULL YEAR 2006 GUIDANCE

For the year, the Company is raising its guidance, and now expects net revenue (total revenue less interchange, dues and assessments) to grow by 28% - 30%; operating income as a percentage of net revenue to be 20% - 22% on a pro forma basis, which excludes the \$2 million interchange estimate change in the first quarter; and earnings per share of \$0.74 - \$0.78, which only excludes \$0.04 per share of after-tax 123R expense currently anticipated for fiscal 2006.

CONFERENCE CALL:

Heartland Payment Systems, Inc. will host a conference call on August 3, 2006 at 8:30 a.m. Eastern Time to discuss financial results and business highlights. The conference call may be accessed by calling 973-935-2981 at 8:25 AM Eastern time on August 3, 2006. Please provide the operator with PIN number 7644866. The conference call will also be Web cast where it can be accessed on the investor relations portion of Heartland's website at www.heartlandpaymentsystems.com.

A digital replay of the conference call will be available within two hours of the conclusion of the call and will remain available through September 7, 2006. The number to call for the taped replay is 973-341-3080 and the conference PIN 7644866. The webcast will also be archived within two hours of the live call on the investor relations portion of the Company's website.

ABOUT HEARTLAND

Heartland Payment Systems, Inc. (HPS), a NYSE company trading under the symbol HPY, delivers credit/debit card processing and payroll solutions to nearly 128,000 small to medium-sized merchants throughout the United States. HPS also provides additional services to its merchants such as gift and loyalty card programs, paper check authorization, and sells and rents point-of-sale devices and supplies.

With over 1,000 national sales professionals, HPS builds long-term business relationships in local sales territories providing merchants with enhanced technology tools that assist them in more effectively operating their businesses.

Heartland processed its first transaction in 1997, and, since 2000, has grown at a compound annual rate of more than 30% to become the sixth largest merchant processor in the United States and fifteenth largest merchant processor in the world.

<http://www.heartlandpaymentsystems.com>

FORWARD-LOOKING STATEMENTS:

This press release may contain statements of a forward-looking nature which represent our management's beliefs and assumptions concerning future events. Forward-looking statements involve risks, uncertainties and assumptions and are based on information currently available to us. Actual results may differ materially from those expressed in the forward-looking statements due to many factors. Information concerning these factors is contained in the Company's Securities and Exchange Commission filings. We undertake no obligation to update any forward-looking statements to reflect events or circumstances that may arise after the date of this release.

CONTACT:
 Joe Hassett or Paul Johnson
 Gregory FCA
 27 West Athens Ave.
 Ardmore, PA 19003
 Tel: 610-642-8253
 Email: Heartland_ir@gregoryfca.com

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HEARTLAND PAYMENT SYSTEMS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (In thousands, except per share data)
 (unaudited)

<TABLE>
 <CAPTION>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
<S>	<C>	<C>	<C>	<C>
TOTAL REVENUES	\$ 278,059	\$ 209,691	\$ 514,855	\$ 379,557
COSTS OF SERVICES:				
Interchange	204,541	153,134	376,770	275,550
Dues and assessments	10,226	7,899	18,812	14,314
Processing and servicing	29,611	22,532	57,762	42,353
Customer acquisition costs	8,323	7,400	16,495	13,241
Depreciation and amortization	1,438	1,326	2,801	2,609
Total costs of services	254,139	192,291	472,640	348,067
General and administrative	11,781	9,290	23,790	18,279
Total expenses	265,920	201,581	496,430	366,346
INCOME FROM OPERATIONS	12,139	8,110	18,425	13,211
OTHER INCOME (EXPENSE):				
Interest income	453	111	830	183
Interest expense	(224)	(538)	(344)	(973)
Fair value adjustment for warrants with mandatory redemption provisions	--	(202)	--	(292)
Other, net	17	(28)	831	7
Total other income (expense)	246	(657)	1,317	(1,075)
Income before income taxes	12,385	7,453	19,742	12,136
Provision for income taxes	4,940	3,072	7,909	5,061
NET INCOME	7,445	4,381	11,833	7,075
Income allocated to Series A Senior Convertible Preferred Stock	--	2,107	--	3,402
NET INCOME ATTRIBUTABLE TO COMMON STOCK	\$ 7,445	\$ 2,274	\$ 11,833	\$ 3,673
Net income	\$ 7,445	\$ 4,381	\$ 11,833	\$ 7,075
Other comprehensive income, net of tax: Unrealized gains (losses) on investments	1	5	(2)	(4)
COMPREHENSIVE INCOME	\$ 7,446	\$ 4,386	\$ 11,831	\$ 7,071

EARNINGS PER COMMON SHARE:

Basic	\$	0.21	\$	0.13	\$	0.33	\$	0.22
Diluted	\$	0.19	\$	0.12	\$	0.30	\$	0.20

WEIGHTED AVERAGE NUMBER OF COMMON SHARES

OUTSTANDING:

Basic	36,201	16,454	35,667	16,453
Diluted	39,932	35,616	39,898	35,344

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HEARTLAND PAYMENT SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(unaudited)

<TABLE>
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	JUNE 30, 2006	DECEMBER 31, 2005
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,892	\$ 17,747
Receivables, net	100,859	93,756
Investments	2,552	2,141
Inventory	2,487	714
Prepaid expenses	1,546	1,979
Current tax asset	25,304	1,602
Current deferred tax assets, net	811	1,492
	-----	-----
Total current assets	154,451	119,431
Capitalized customer acquisition costs, net	50,473	42,930
Deferred tax assets, net	4,259	3,477
Property and equipment, net	20,880	17,661
Goodwill and intangible assets	1,777	--
Deposits and other assets	138	186
	-----	-----
Total assets	\$ 231,978	\$ 183,685
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Due to sponsor bank	\$ 37,383	\$ 34,530
Accounts payable	28,060	25,339
Current portion of accrued buyout liability	10,949	10,478
Merchant deposits and loss reserves	6,650	7,450
Accrued expenses and other liabilities	11,175	7,407
Current portion of borrowings and financing arrangements	242	261
	-----	-----
Total current liabilities	94,459	85,465
Long-term portion of borrowings and financing arrangements	81	173
Long-term portion of accrued buyout liability	19,464	17,996
	-----	-----
Total liabilities	114,004	103,634
	-----	-----
Commitments and contingencies	--	--

STOCKHOLDERS' EQUITY

Common Stock, \$.001 par value, 100,000,000 shares authorized; 37,327,327 and 34,222,114 shares issued at June 30, 2006 and December 31, 2005; 36,431,427 and 34,200,114 shares outstanding at June 30, 2006 and December 31, 2005	37	34
Additional paid-in capital	142,683	96,417
Accumulated other comprehensive loss	(29)	(26)
Accumulated deficit	(4,046)	(15,879)
Treasury stock, at cost (895,900 and 22,000 shares at June 30, 2006 and December 31, 2005)	(20,671)	(495)
	-----	-----
Total stockholders' equity	117,974	80,051
	-----	-----

</TABLE>

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HEARTLAND PAYMENT SYSTEMS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
 (In thousands)
 (unaudited)

<TABLE>
 <CAPTION>

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 11,833	\$ 7,075
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of capitalized customer acquisition costs	16,804	11,526
Other depreciation and amortization	3,563	2,609
Stock-based compensation	461	--
Deferred taxes	(101)	(638)
Fair value adjustment for warrants with mandatory redemption provisions	--	292
Loss on disposal of property and equipment	--	33
Changes in operating assets and liabilities:		
Increase in receivables	(6,095)	(10,766)
(Increase) decrease in inventory	(673)	158
Payment of signing bonuses, net	(15,955)	(9,742)
Increase in capitalized customer acquisition costs	(8,392)	(5,956)
Decrease (increase) in prepaid expenses	425	(238)
Decrease in deposits and other assets	1,502	1
Excess tax benefits on options exercised under SFAS No. 123R	(25,204)	--
Increase in due to sponsor bank	2,853	8,888
Increase in accounts payable	1,846	481
Increase in accrued expenses and other liabilities	3,738	1,374
(Decrease) increase in merchant deposits and loss reserves	(799)	383
Payouts of accrued buyout liability	(6,144)	(4,982)
Increase in accrued buyout liability	8,083	7,672
Net cash (used in) provided by operating activities	(12,255)	8,170
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(976)	(410)
Maturities of investments	563	120
Acquisition of business, net of cash acquired	(3,453)	--
Proceeds from disposal of property and equipment	--	27
Purchases of property and equipment	(6,254)	(5,689)
Net cash used in investing activities	(10,120)	(5,952)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on borrowings and financing arrangements	(112)	(1,170)
Proceeds from exercise of stock options	20,604	108
Excess tax benefits on options exercised under SFAS No. 123R	25,204	--
Repurchase of common stock	(20,176)	--
Net cash provided by (used in) financing activities	25,520	(1,062)
Net increase in cash and cash equivalents	3,145	1,156
Cash and cash equivalents at beginning of year	17,747	13,237
Cash and cash equivalents at end of period	\$ 20,892	\$ 14,393

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:

Interest

\$ 340

\$ 918

Income taxes

6,503

7,179

</TABLE>

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