

CARDTRONICS INC  
Form 10-K  
February 18, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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

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CARDTRONICS, INC.

(Exact name of registrant as specified in its charter)

Delaware 76-0681190  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3250 Briarpark Drive, Suite 400 77042  
Houston, TX (Zip Code)

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(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes  No

Aggregate market value of common stock held by non-affiliates as June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter, based on the reported last sale price of common stock on that date: \$1,217,819,999.

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Number of shares outstanding as of February 14, 2014: 44,484,108 shares of Common Stock, par value \$0.0001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive proxy statement for the 2014 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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When we refer to “us,” “we,” “our,” “ours,” “the Company,” or “Cardtronics,” we are describing Cardtronics, Inc. and/or our subsidiaries, unless the context indicates otherwise.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the “2013 Form 10-K”) contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements are identified by the use of the words “project,” “believe,” “expect,” “anticipate,” “intend,” “contemplate,” “foresee,” “would,” “plan,” and similar expressions that are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our estimates for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause actual results to differ materially from those in the forward-looking statements are those described in: Part I, Item 1A. Risk Factors.

Readers are cautioned not to place undue reliance on forward-looking statements contained in this document, which speak only as of the date of this 2013 Form 10-K. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

## PART I

### ITEM 1. BUSINESS

#### Overview

Cardtronics, Inc. provides convenient automated consumer financial services through its network of automated teller machines (“ATMs”) and multi-function financial services kiosks. As of December 31, 2013, we were the world’s largest retail ATM owner, providing services to approximately 80,600 devices throughout the United States (“U.S.”) (including the U.S. territories of Puerto Rico and the U.S. Virgin Islands), the United Kingdom (“U.K.”), Germany, Canada, and Mexico. In the U.S., certain of our devices are multi-function financial services kiosks that, in addition to traditional ATM functions such as cash dispensing and bank account balance inquiries, perform other consumer financial services, including bill payments, check cashing, remote deposit capture (which is deposit taking at ATMs using electronic imaging), and money transfers. Also included in the number of devices in our network as of December 31, 2013 were approximately 13,600 ATMs to which we provided various forms of managed services. Under a managed services arrangement, retailers and financial institutions rely on us to handle some or all of the operational aspects associated with operating and maintaining ATMs, typically in exchange for a monthly service fee or fee per service provided.

We often partner with large, nationally and regionally-known retail merchants under multi-year contracts to place our ATMs and kiosks within their store locations. In doing so, we provide our retail partners with a compelling automated financial services solution that helps attract and retain customers, and in turn increases the likelihood that our devices will be utilized. We also own and operate an electronic funds transfer (“EFT”) transaction processing platform that provides transaction processing services to our network of ATMs and financial services kiosks, as well as to ATMs owned and operated by third parties.

Historically, we have generally deployed and operated our devices under two distinct arrangements with our retail partners: Company-owned and merchant-owned arrangements. Under Company-owned arrangements, we provide the device and are typically responsible for all aspects of its operations, including transaction processing, managing cash and cash delivery, supplies, and telecommunications, as well as routine and technical maintenance. Under merchant-owned arrangements, the retail merchant or an independent distributor owns the device and is usually responsible for providing cash and performing simple maintenance tasks, while we provide more complex maintenance services, transaction processing, and connection to the EFT networks. As of December 31, 2013, 55% of our devices operated were Company-owned and 28% were merchant-owned. Additionally, 17% of our devices were operated under a managed services solution, in which we provide certain services to retailers, financial institutions and other ATM operators. We offer various forms of managed services, depending on the needs of our customers. Each managed services arrangement is a customized ATM management solution that can include any combination of the following services: monitoring, maintenance, cash management, cash delivery, customer service, transaction processing, and other services. Each of the arrangement types described above are attractive to us, and we plan to continue growing our revenues under each arrangement type.

We also partner with leading national and regional financial institutions to brand certain of our ATMs and financial services kiosks within our network. As of December 31, 2013, approximately 20,400 of our ATMs were under contract with financial institutions to place their logos on the machines and to provide convenient surcharge-free access for their banking customers. In return for the branding that we provide, we generally receive monthly fees on a per ATM basis from the branding institution, while retaining our standard fee schedule for noncustomers of the financial institutions who use the branded ATMs.

Additionally, we own and operate the Allpoint network (“Allpoint”), the largest surcharge-free ATM network within the U.S. (based on the number of participating ATMs). The Allpoint network, which has more than 55,000 participating ATMs globally, provides surcharge-free ATM access to customers of 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 our ATMs in the U.S., a portion of our ATMs in the U.K. and Canada, Puerto Rico, and Mexico, and over 5,000 locations in Australia through a partnership with a local ATM owner and operator. 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.

Our revenues are recurring in nature and historically have been derived primarily from convenience transaction fees, which are paid by cardholders, and transaction fees, including interchange fees, which are paid by the cardholder’s financial institution for the use of the devices serving their customers and the connectivity to the applicable EFT network that transmits data between the device and the cardholder’s financial institution. Other revenue sources include: (1) branding our devices with the logos of leading national and regional banks and other financial institutions, (2) providing managed services solutions to retailers and financial institutions, (3) collecting fees from financial institutions that participate in our Allpoint surcharge-free network, and (4) selling ATM-related equipment and other ancillary services.



## Organizational and Operational History

We were formed as a Texas corporation in 1993 and originally operated under the name of Cardpro, Inc. In June 2001, Cardpro, Inc. was converted into a Delaware limited partnership and renamed Cardtronics, LP. Also, in June 2001, Cardtronics Group, Inc. was incorporated under the laws of the state of Delaware to act as a holding company for Cardtronics, LP, with Cardtronics Group, Inc. indirectly owning 100% of the equity of Cardtronics, LP. In January 2004, Cardtronics Group, Inc. changed its name to Cardtronics, Inc. In December 2007, we completed the initial public offering of 12,000,000 shares of our common stock. In December 2008, Cardtronics, LP was converted into a corporation under the laws of Delaware and changed its name to Cardtronics USA, Inc. Cardtronics USA, Inc. is the primary domestic operating subsidiary of Cardtronics, Inc.

Since May 2001, we have acquired 23 ATM portfolios, which expanded our operations both domestically and internationally in multi-unit retail chains and individual merchant locations. We have also made other strategic acquisitions including the acquisition of our surcharge-free network, Allpoint, and more recently in March 2013, i-design (“i-design”), a Scotland-based provider and developer of marketing and advertising software and services for ATM owners.

From 2001 to 2013, the total number of annual transactions processed within our network increased from approximately 19.9 million to approximately 920.1 million.

## Additional Company Information

General information about us can be found on our website at <http://www.cardtronics.com>. We file annual, quarterly, and current reports as well as other information electronically with the SEC under the Exchange Act. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports are available free of charge on our website as soon as reasonably practicable after the reports are filed or furnished electronically with the SEC. You may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. You may also request an electronic or paper copy of our SEC filings at no cost by writing or telephoning us at the following: Cardtronics, Inc., Attention: Chief Financial Officer, 3250 Briarpark Drive, Suite 400, Houston, Texas 77042; (832) 308-4000. Information on our website is not incorporated into this 2013 Form 10-K or our other securities filings.

## Our Strategy

Our strategy is to enhance our position as a leading provider of automated consumer financial services in the markets in which we operate, as well as other select international markets. To do so, we will continue to partner with leading financial institutions and retailers to expand our network of conveniently located ATMs and financial services kiosks. Additionally, we will seek to deploy additional products and services that will further incentivize consumers to utilize our network of devices. In order to execute this strategy, we endeavor to:

**Increase our Number of Deployed Devices with Existing and New Merchant Relationships.** We believe that there are significant opportunities to deploy additional ATMs with our existing retail customers in locations that currently do not have ATMs. Furthermore, many of our retail customers continue to expand their number of active store locations, either through acquisitions or through new store openings, thus providing us with additional ATM deployment opportunities. Additionally, we are actively pursuing opportunities to deploy ATMs with new retailers, including retailers that currently do not have ATMs, as well as those that have existing ATM programs but that are looking for a new ATM provider. We believe our expertise, broad geographic footprint, strong record of customer service, and significant scale position us to successfully market to, and enter into long-term contracts with, additional leading merchants. In addition, we believe our existing relationships with leading U.S.- and U.K.-based retailers position us to expand into international locations where these existing partners have operations.

**Expand our Relationships with Leading Financial Institutions.** Through our merchant relationships as well as our diverse product and service offerings, we believe we can provide our existing financial institution customers with convenient solutions to fulfill their growing ATM and automated consumer financial services requirements. Further, we believe we can leverage these offerings to attract additional financial institutions as customers. Our services currently offered to financial institutions include branding our ATMs with their logos, on-screen advertising and content management, providing remote deposit capture, providing surcharge-free access to their customers through our Allpoint network, and providing managed services for their ATM portfolios. Our EFT transaction processing capabilities provide us with the ability to provide customized control over the content of the information appearing on the screens of our ATMs and ATMs we process for financial institutions, which increases the types of products and services that we are able to offer to financial institutions. We also plan to continue growing the number of machines and financial institutions participating in our Allpoint network which drives higher transaction counts and profitability on our existing ATMs and increases our value to the retailers where our ATMs are located.

**Work with Non-Traditional Financial Institutions and Card Issuers to Further Leverage our Extensive ATM and Financial Services Kiosk Network.** We believe that there are opportunities to develop or expand relationships with non-traditional financial institutions and card issuers, such as reloadable prepaid card issuers and alternative payment networks, which are seeking an extensive and convenient ATM

network to complement their new card offerings. Additionally, we believe that many of the prepaid debit card issuers that exist today in the U.S. can benefit by providing their cardholders with access to our ATM network on a discounted or fee-free basis. For example, through our Allpoint network, we have sold access to our ATM network to issuers of stored value prepaid debit cards to provide the customers of these issuers with convenient and surcharge-free access to cash.

**Increase Transaction Levels at our Existing Locations.** We believe that there are opportunities to increase the number of transactions that are occurring today at our existing ATM locations. On average, only a small fraction of the customers that enter our retail customers' locations utilize our ATMs and financial services kiosks. In addition to our existing initiatives that tend to drive additional transaction volumes to our ATMs, such as bank branding and network branding, we are developing new initiatives to potentially drive incremental transactions over our existing ATM locations. Examples of this effort are our 2011 acquisition of LocatorSearch, which helps consumers find our ATMs, and the launch of FeeAlert in the third quarter of 2012, which enables financial institutions to help their customers save money by steering them toward nearby in-network ATMs and away from ATM fees. Additionally, we have existing programs and are working to develop additional and broader programs to steer the cardholders of our existing financial institution partners and members of our Allpoint network to visit our ATMs in convenient retail locations. These programs may include incentives to cardholders such as coupons, rewards, and other offers that tend to provide motivation for customers to visit our ATMs within our existing retail footprint. While we are in the early stages of fully developing and implementing many of these programs, we believe that these programs, when properly structured, can serve to benefit each party (i.e. the retailer, the financial institution, and the cardholder.) As a result, we expect to gain additional transaction volumes through these efforts.

**Develop and Provide Additional Services at our Existing ATMs.** Service offerings by ATMs continue to evolve over time. Certain ATM models are capable of providing numerous automated consumer financial services, including bill payments, check cashing, remote deposit capture, money transfer, bill payment services, and stored-value card reload services. Certain of our devices are capable of, and currently provide, these types of services. We believe these non-traditional consumer financial services offered by our devices, and other machines that we or others may develop, could provide a compelling and cost-effective solution for financial institutions and stored-value prepaid debit card issuers looking to provide convenient services to their customers at well-known retail locations. We also allow advertisers to place their messages on our ATMs equipped with advertising software in both the U.S. and the U.K. Offering additional services at our devices, such as advertising, allows us to create new revenue streams from assets that have already been deployed, in addition to providing value to our customers through beneficial offers and convenient services. We plan to develop additional products and services that can be delivered through our existing ATM network.

**Pursue Additional Managed Services Opportunities.** Over the last several years, we significantly expanded the number of ATMs that are operated under our managed services arrangement type. Under this arrangement, retailers and financial institutions generally pay us a fixed management fee per cardholder or a set fee per transaction in exchange for us handling some or all of the operational aspects associated with operating and maintaining their ATM fleets. Surcharge and interchange fees are generally earned by the retailer or the financial institution. As a result, in this arrangement type, our revenues are partly protected from fluctuations in transaction levels of these machines and changes in network interchange rates. Additionally, in the U.K., where we have our own engineering, armored courier, and installation organizations, we believe that opportunities exist to offer some (or all) of these services on a managed services basis to both retailers and financial institutions. We plan to continue pursuing additional managed services opportunities with leading merchants and financial institutions in the markets in which we operate.

**Pursue Acquisition Opportunities.** We have historically grown through acquisitions and expect to continue to pursue select acquisition opportunities in the future. Since 2011, we have completed several acquisitions including the acquisitions of: (1) six domestic ATM operators, expanding our fleet in both multi-unit regional retail chains and individual merchant ATM locations in the U.S. by approximately 29,500 ATMs, (2) two Canadian ATM operators for a total of approximately 1,400 ATMs, which allowed us to enter into and expand our international presence in Canada, and (3) Cardpoint in August 2013, which further expanded our U.K. ATM operations by approximately 7,100 ATMs and also allowed us to enter into the German market with approximately 800 ATMs. In addition to ATM acquisitions, we have also made strategic acquisitions including LocatorSearch in August 2011, a domestic leading provider of location search technology deployed by financial institutions to help customers and members find the nearest, most appropriate and convenient ATM location based on the service they seek and i-design group plc (“i-design”) in March 2013, which is a Scotland-based provider and developer of marketing and advertising software and services for ATM operators.

**Pursue International Growth Opportunities.** We have invested significant amounts of capital in the infrastructure of our U.K., Canada, and Mexico operations, and we plan to continue to grow our operations in these markets, as well as in the newly-entered German market, applying many of the aforementioned strategies. Additionally, we may expand our operations into selected other international markets where we believe we can leverage our operational expertise, EFT transaction processing platform, and scale advantages. Our future international expansion, if any, will depend on a number of factors, including the estimated economic opportunity to us, the business and regulatory environment in the international market, our ability to identify suitable business partners in the market, and other risks associated with international expansion.

For additional information on items that may impact our strategy, see Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Developing Trends in the ATM and Financial Services Industry.

## Our Products and Services

Under our Company-owned arrangement type, we typically provide our merchant customers with all of the services required to operate ATMs and financial services kiosks, which include monitoring, maintenance, cash management, customer service, and transaction processing. We believe our merchant customers value our high level of service, our 24-hour per day monitoring and accessibility. Our devices are on-line and able to serve customers an average of approximately 99.1% of the time in the U.S. In connection with the operation of our devices under our traditional ATM services model, we generate revenue on a per-transaction basis from the surcharge fees charged to cardholders for the convenience of using our devices and from interchange fees charged to these cardholders' financial institutions for processing the related transactions conducted on those devices. As further described below, we also earn revenues on these devices based on our relationships with certain financial institutions and our Allpoint network.

Under our merchant-owned arrangement type, we typically provide transaction-processing services, certain customer support functions, and settlement services. We generally earn interchange revenue on a per transaction basis in this arrangement. In some cases, the surcharge is earned completely by the merchant, in which case our revenues are derived solely from interchange revenues. In other arrangements, we also share a portion of the surcharge revenues with the merchant.

For ATMs under managed services arrangements, we typically receive a fixed monthly management fee and/or fixed rate per transaction in return for providing the agreed-upon service or suite of services. We do not receive surcharge and interchange fees in these arrangements, but rather those amounts are earned by our customer.

The following table provides detail relating to the number of devices we owned and operated under our various arrangements as of December 31, 2013:

	ATM Operations				
	Company- Owned	Merchant- Owned	Subtotal	Managed Services	Total
Number of devices at period end	44,421	22,563	66,984	13,610	80,594
Percentage	55.1%	28.0%	83.1%	16.9%	100.0%

We have found that the primary factor affecting transaction volumes at a given ATM or financial services kiosk is its location. Therefore, our strategy in deploying our devices, particularly those placed under Company-owned arrangements, is to identify and deploy them at locations that provide high visibility and high retail transaction volume. Our experience has demonstrated that the following locations often meet these criteria: convenience stores and a combination of convenience stores and gas stations, grocery stores, drug stores, airports, and other major regional and national retail outlets. We have entered into multi-year agreements with many well-known merchants,

including 7-Eleven, Inc. (“7-Eleven”), CVS Caremark Corporation (“CVS”), Cumberland Farms, Inc., Hess Corporation, The Kroger Co., The Pantry, Inc. (“The Pantry”), Safeway, Inc., Speedway LLC (“Speedway”), Sunoco, Inc., Target Corporation, Valero Energy Corporation (“Valero”), and Walgreen Co. (“Walgreens”) in the U.S.; Bank of Ireland Group, BP p.l.c., BT Group plc, Martin McColl Ltd., Network Rail Infrastructure Limited, Royal Dutch Shell plc, Southern Railway Ltd., Tates Ltd., Waitrose Ltd., and Welcome Break Holdings Ltd. in the U.K.; Cadena Comercial OXXO S.A. de C.V. in Mexico; and 7-Eleven in Canada. We believe that once consumers establish a pattern of using a particular device, they will generally continue to use that device.

We generally operate our ATMs and kiosks under multi-year contracts that provide a recurring and stable source of revenue and typically have an initial targeted term of five to seven years. As of December 31, 2013, our contracts with our top five merchant customers (based on 2013 revenues) had a weighted average remaining life of 3.3 years.

Additionally, we enter into arrangements with financial institutions to brand certain of our Company-owned ATMs with their logos. These bank branding arrangements allow a financial institution to expand its geographic presence for a fraction of the cost of building a branch location and typically for less than the cost of placing one of its own ATMs at that location. These arrangements allow a financial institution to rapidly increase its number of branded ATM sites and improve its competitive position. Under these arrangements, the branding institution’s customers are allowed to use the branded ATMs without paying a surcharge fee to us. In return, we receive monthly fees on a per-ATM basis from the branding institution, while retaining our standard fee schedule for other cardholders using the branded ATMs. In addition, our branded machines typically generate higher interchange revenue as a result of the increased usage of our ATMs by the branding institution’s customers and others who prefer to use a bank-branded ATM. In 2013, we introduced a new approach to bank branding by launching “preferred branding,” where up to nine additional financial institutions (aside from the “principal branding” partner on the ATM) can add their logos to the ATM’s safe door. We intend to continue pursuing additional bank branding arrangements as part of our growth strategy. As of December 31, 2013, we had bank branding on approximately 20,400 ATMs with various financial institutions including Citibank, N.A., Citizens Financial Group, Inc., Cullen/Frost Bankers, Inc., JPMorgan Chase Bank, N.A., Santander Bank, N.A., and PNC Bank, N.A. in the U.S.; Bansí, S.A. Institución de Banca Multiple (“Bansi”) and Grupo Financiero Banorte, S.A. de C.V. (“Banorte”) in Mexico; and The Bank of Nova Scotia (“Scotiabank”) in Canada. We have seen growth in the past few years in bank branding arrangements as a result of our increased sales efforts, our acquisitions, and demand from financial institutions for the services offered.

In addition to our bank branding arrangements, we offer financial institutions another type of surcharge-free program through our Allpoint nationwide surcharge-free ATM network. Under the Allpoint network, financial institutions who are members of the network pay us either a fixed monthly fee per cardholder or a set fee per transaction in exchange for us providing their cardholders with surcharge-free access to ATMs in the Allpoint network, which includes ATMs throughout the U.S., U.K., Mexico, Canada, Puerto Rico, and Australia. We believe our Allpoint network offers an attractive alternative to financial institutions that lack their own extensive ATM network. Finally, our Company-owned ATMs deployed under our placement agreement with 7-Eleven, as well as other select ATM portfolios, participate in the CO-OP® network.

For additional information on the amount of revenue contributed by our various service offerings, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Components of Revenues, Costs of Revenues, and Expenses – Revenues.

### Segment and Geographic Information

As of December 31, 2013, our operations consisted of our U.S., Europe, and Other International segments. Our U.S. segment includes our operations in all 50 states, Puerto Rico and the U.S. Virgin Islands, and accounted for approximately 76% of our total revenues for the year ended December 31, 2013. Our Europe segment includes our operations in the U.K. and Germany, and our Other International segment includes our operations in Mexico and Canada. While each of these reporting segments provides similar kiosk-based and/or ATM-related services, each segment is currently managed separately, as they require different marketing and business strategies.

For financial information including revenues, earnings, and total assets of our reporting segments, see Part II, Item 8. Financial Statements and Supplementary Data, Note 20, Segment Information. Additionally, for a discussion of the risks associated with our international operations, see Item 1A. Risk Factors — Our international operations, including any future international operations, involve special risks and may not be successful, which would result in a reduction of our gross and net profits.

### Sales and Marketing

In the U.S., our sales and marketing teams are organized by customer type. We have a team principally focused on developing new relationships with national, regional, and local merchants as well as building and maintaining relationships with our existing merchants. In addition to the merchant-focused sales and marketing group, we have a sales and marketing group that is focused on developing and managing our relationships with financial institutions and stored-value debit card issuers, as we look to expand the types of services that we offer to such institutions. Our sales and marketing representatives also focus on identifying potential managed services opportunities with financial institutions and retailers alike.

In addition to targeting new business opportunities, our sales and marketing team supports our customer retention and growth initiatives by building and maintaining relationships with our established and recently-acquired merchants. We seek to identify growth opportunities within each merchant account by analyzing the merchant's sales at each of its locations. We also analyze foot traffic and various demographic data to determine the best opportunities for new ATM and financial services kiosk placements, as well as the optimum drivers for increasing same-store ATM transactions that will positively impact merchant point-of-sale ("POS") levels. The employees that focus on sales are typically compensated with a combination of incentive-based compensation and base salary.

## Technology

Our technology and operations platform consists of ATMs and financial services kiosks, central transaction processing systems, network infrastructure components (including hardware, software, and telecommunication circuits used to provide real-time device monitoring, software distribution, and transaction processing services), cash management and forecasting software tools, customer service, and ATM management infrastructure.

**Equipment.** We purchase our ATMs from global manufacturers, including, but not limited to, NCR Corporation ("NCR"), Triton Systems of Delaware, Inc. ("Triton"), Diebold Incorporated ("Diebold"), and Nautilus Hyosung, Inc. ("Hyosung"), and place them in our customers' locations. The wide range of advanced technology available from these ATM manufacturers provides our customers with advanced features and reliability through sophisticated diagnostics and self-testing routines. The different machine types can all perform basic functions, such as dispensing cash and displaying account information. However, our technology is also capable of providing additional services in response to changing consumer demand. Additionally, some of our devices provide enhanced financial services transactions, including bill payments, check cashing, remote deposit capture, and money transfers.

**Transaction Processing.** We place significant emphasis on providing quality service with a high level of security and minimal interruption. We have carefully selected support vendors and systems, as well as developed internal professional staff to optimize the performance of our network, which was available 99.99% of the time during 2013. In 2006, we implemented our own EFT transaction processing operation, which is based in Frisco, Texas. This operation enables us to process and monitor transactions on our devices and to control the flow and content of information appearing on the screens of such devices. We have also implemented new products and services such as currency conversion services and have introduced targeted marketing campaigns through on-screen advertising. As with our existing network operation, we have carefully selected support vendors and developed internal professional staff to help provide sophisticated security analysis and monitoring 24 hours a day to ensure the continued performance of our ATMs. With our acquisitions of ATM portfolios over the



past few years, we are actively converting the transaction processing of the acquired ATMs to our in-house solution as previous contractual processing relationships expire or are terminated.

**Internal Systems.** Our internal systems, including our EFT transaction processing operation, include multiple layers of security to help protect the systems from unauthorized access. Protection from external sources is provided by the use of hardware- and software-based security features that prevent and report unauthorized access attempts. We employ user authentication and security measures at multiple levels. These systems are protected by detailed security rules to only allow appropriate access to information based on the employee's job responsibilities. All changes to the systems are controlled by policies and procedures, with automatic prevention and reporting controls that are placed within our processes. Our real-time connections to the various financial institutions' authorization systems that allow withdrawals, balance inquiries, transfers, and advanced functionality transactions are accomplished via gateway relationships or direct connections. We have installed these communications circuits with backup connectivity to help protect us from telecommunications interruption in any particular circuit. We use commercially-available and custom software that continuously monitors the performance of the devices in our network, including details of transactions at each device and expenses relating to those devices, further allowing us to monitor our on-line availability and financial profitability at each location. We analyze transaction volume and profitability data to determine whether to continue operating at a given site, to determine how to price various operating arrangements with merchants and branding partners, and to create a profile of successful locations to assist us in deciding the best locations for additional deployments.

In March 2013, we acquired i-design, a Scotland-based company providing technology and services for ATM operators to enable custom screens, graphical receipt content, and advertising and marketing data capture on the ATM. We expect to continue to grow and leverage the products and services of this business within our own network of ATMs and with select external parties.

**Cash Management.** Our cash management department uses commercially-available software and proprietary analytical models to determine the necessary fill frequency and cash load amount for each ATM. We project cash requirements for each ATM on a daily basis, taking into consideration its location, the day of the week, the timing of holidays, and other factors such as specific events occurring in the vicinity of the ATM. After receiving a cash order from us, the cash provider forwards the request to its vault location nearest to the applicable ATM. Personnel at the vault location then arrange for the requested amount of cash to be set aside and made available for the designated armored courier to access and subsequently transport to the ATM. Our cash management department utilizes data generated by the cash providers, internally-generated data, and a proprietary methodology to confirm daily orders, audit delivery of cash to armored couriers and ATMs, monitor cash balances for cash shortages, coordinate and manage emergency cash orders, and audit costs from both armored couriers and cash providers.

In the U.K., we have our own armored courier operation, Green Team Services Limited ("Green Team"), with two secure cash depot facilities located outside of London and Manchester, England. As of December 31, 2013, this operation was servicing over 2,900 of our ATMs in the U.K. We believe this operation allows us to provide higher-quality and more cost-effective cash-handling services in that market and has proven to be an efficient alternative to third-party armored providers.

Customer Service. We believe one of the factors that differentiates us from our competitors is our customer service responsiveness and proactive approach to managing any downtime experienced by our devices. We use an advanced software package that monitors the performance of our Company-owned devices 24 hours a day for service interruptions and notifies our maintenance engineers and vendors for prompt dispatch of necessary service calls.

Finally, we use proprietary software systems to maintain a database of transactions made on, and performance metrics for, each of our devices. This data is aggregated into individual merchant customer profiles that are readily accessible by our customer service representatives and managers. We believe our proprietary databases enable us to provide superior quality and accessible and reliable customer support.

### Primary Vendor Relationships

To maintain an efficient and flexible operating structure, we outsource certain aspects of our operations, including cash supply and cash delivery, maintenance, and certain transaction processing services. Due to the large number of devices we operate, we believe we have obtained favorable pricing terms from most of our major vendors. We contract for the provision of the services described below in connection with our operations.

Transaction Processing. Although we have our own EFT processing platform that utilizes commercially available software, our processing efforts are primarily focused on controlling the flow and content of information on the ATM screen. We refer to this process as terminal driving. As such, we mostly rely on third-party service providers to handle our connections to the EFT networks and to perform certain funds settlement and reconciliation procedures on our behalf. These third-party transaction processors communicate with the cardholder's financial institution through various EFT networks to obtain transaction authorizations and to provide us with the information we need to ensure that the related funds are properly settled. In addition, we have developed a capability to connect to major financial institutions on a direct basis and expect to expand this direct model, thus controlling fees and interchange on a negotiated basis with our financial institution customers. As a result of our recent acquisitions, a portion of our withdrawal transactions are currently processed through other third-party processors, with whom the acquired businesses had existing contractual relationships. We plan to convert transaction processing services to our EFT processing platform as these contracts expire or are terminated.

EFT Network Services. Our transactions are routed over various EFT networks to obtain authorization for cash disbursements and to provide account balances. EFT networks set the interchange fees that they charge to the financial institutions, as well as the amount paid to us. We attempt to maximize the utility of our ATMs to cardholders by participating in as many EFT networks as practical. Additionally, we own the Allpoint network, the largest surcharge-free network in the U.S. Having this network further enhances our ATM utility by providing certain cardholders surcharge-free access to our ATMs, as well as allowing us to receive network-related economic benefits such as receiving switch revenue and setting surcharge-free interchange rates.

Equipment. As previously noted, we purchase substantially all of our ATMs from a number of global ATM manufacturers, including NCR, Diebold, Triton, and Hyosung. The large quantity of machines that we purchase from these manufacturers enables us to receive favorable pricing and payment terms. In addition, we maintain close working relationships with these manufacturers in the course of our business, allowing us to stay informed about product updates and to receive prompt attention for any technical problems with purchased equipment. The favorable pricing we receive from these manufacturers also allows us to offer certain of our customers an affordable solution to replace their ATMs and their customers' ATMs to be compliant with new regulatory requirements as they arise.

Although we currently purchase a majority of our devices from NCR, we regularly purchase devices from other suppliers. In the event of a device supply shortage from one supplier, we can shift purchases to another supplier.

Maintenance. We typically contract with third-party service providers for on-site maintenance services, except for in the U.K., where maintenance services are provided primarily by our in-house technicians.

Cash Management. We obtain cash to fill our Company-owned devices, and in some cases merchant-owned and managed services ATMs, under arrangements with various cash providers. We pay a monthly fee on the average amount outstanding to our primary vault cash providers under a formula, which is generally based on various benchmark interest rates such as London Interbank Offered Rates ("LIBOR"). At all times, beneficial ownership of the cash is retained by the cash providers, and we have no right to the cash and no access except for those ATMs that are serviced by our wholly-owned armored courier operation in the U.K. While our armored courier operation has physical access to the cash loaded in those machines, beneficial ownership of that cash remains with the cash provider at all times. We also contract with third parties to provide us with cash management services, which include reporting, armored courier coordination, cash ordering, cash insurance, reconciliation of ATM cash balances, and claims processing with armored couriers, financial institutions, and processors.

For the quarter ended December 31, 2013, we had an average of approximately \$2.0 billion in cash in our domestic ATMs under these arrangements, with Bank of America, N.A. ("Bank of America"), Wells Fargo, N.A. ("Wells Fargo"), and Elan (which is a business of U.S. Bancorp), among others. In the U.K., the average balance of cash held in our ATMs was \$661.9 million for the quarter ended December 31, 2013, which was primarily supplied by The Santander Group. For the quarter ended December 31, 2013, our average vault cash balances in Mexico, Canada, and Germany totaled approximately \$129.3 million. For additional information on our vault cash agreements and the related risks,

see Item 1A. Risk Factors – We rely on third parties to provide us with the cash we require to operate many of our devices. If these third parties were unable or unwilling to provide us with the necessary cash to operate our devices, we would need to locate alternative sources of cash to operate our devices or we would not be able to operate our business.

The vault cash that we are contractually responsible for in all of the jurisdictions in which we operate is insured up to certain per location loss limits and subject to per incident and annual aggregate deductibles through a syndicate of six Lloyd's of London and U.S.-based underwriters.

**Cash Replenishment.** We contract with armored courier services to transport and transfer most of the cash to our devices. We use leading armored couriers in all of our jurisdictions except for in the U.K., where we utilize Green Team, our own armored courier operation, as well as third-party service providers. Under these arrangements, the armored couriers pick up the cash in bulk, and using instructions received from us and our cash providers, prepare the cash for delivery to each ATM on the designated fill day. Following a predetermined schedule, the armored couriers visit each location on the designated fill day, load cash into each ATM by either adding additional cash into a cassette or by swapping out the remaining cash for a new fully loaded cassette, and then balance each machine and provide cash reporting to the applicable cash provider.

Green Team currently services over 2,900 of our ATMs in the U.K. This operation reduces our reliance on third parties, allows us greater flexibility in terms of servicing our ATMs, and allows us to provide higher-quality and more cost-effective cash-handling services in that market, which has proven to be an efficient alternative to third-party armored courier providers.

#### Merchant Customers

In each of our markets, we typically deploy our Company-owned devices under long-term contracts with major national and regional merchants, including convenience stores, supermarkets, drug stores, and other high-traffic locations. Our merchant-owned ATMs are typically deployed under arrangements with smaller independent merchants.

The terms of our merchant contracts vary as a result of negotiations at the time of execution. In the case of Company-owned devices, the contract terms vary, but typically include the following:

- a multi-year term;
  - exclusive deployment of devices at locations where we install a device;
- the right to increase surcharge fees, with merchant consent required in some cases;
- in the U.S., our right to terminate or remove devices or renegotiate the fees payable to the merchant if surcharge fees or interchange fees are reduced or eliminated as a result of regulatory action; and
- provisions that make the merchant's fee dependent on the number of device transactions.

Our contracts under merchant-owned arrangements typically include similar terms, as well as the following additional terms:

- in the U.S., provisions prohibiting in-store check cashing by the merchant and, in the U.S. and the U.K., the operation of any other cash-back devices; and
- provisions imposing an obligation on the merchant to operate the ATMs at any time its stores are open for business.

Finally, our managed services contracts are tailored to the needs of the merchant and therefore vary in scope and terms. Under these types of arrangements, our customers determine the location, the surcharge fee, and the services offered while we typically receive a fixed management fee on a per machine basis and/or a fixed rate per transaction.

7-Eleven is the largest merchant customer in our portfolio, representing approximately 24% of our pro forma revenues for the year ended December 31, 2013, which includes actual total revenues and the pro forma effect of the Cardpoint acquisition for the entire year of 2013. The underlying merchant agreement with 7-Eleven, which had an initial term of 10 years from the effective date of the acquisition, expires in July 2017. In addition to 7-Eleven, our next four largest merchant customers (based on revenues) during 2013 were CVS, Walgreens, Speedway, and Valero, none of which individually generated in excess of 6% of our total revenues in 2013. For a discussion of the risks associated with our customer mix, see Item 1A. Risk Factors – We derive a substantial portion of our revenue from devices placed with a small number of merchants. If one or more of our top merchants were to suffer a material deterioration of their business and cease doing business with us, or to substantially reduce its dealings with us, our revenues could decline.

## Seasonality

Our overall business is somewhat seasonal in nature with generally fewer transactions occurring in the first quarter of the fiscal year. Transaction volumes at our devices located in regions affected by strong winter weather patterns typically experience declines in volume during the first and fourth quarters as a result of decreases in the amount of consumer traffic through such locations. These declines, however, have been partially offset somewhat by increases in the number of our devices located in retail locations that benefit from increased consumer traffic during the holiday buying season. With all of our ATMs located in the northern hemisphere, we usually see an increase in transactions in the warmer summer months from May through August, which are also aided by increased vacation and holiday travel. We expect these fluctuations in transaction volumes to continue in the future.

## Competition

Historically, we have competed with financial institutions and other independent ATM deployers (commonly referred to as "IADs") for additional ATM placements, new merchant accounts, branding, and acquisitions. However, we also have established relationships with leading national and regional financial institutions through our bank branding program and our Allpoint network. Both of these programs can be cost-efficient alternatives to banks and other financial service providers in lieu of owning and operating extensive ATM networks. We believe the scale of our extensive network, our EFT transaction processing services and our focus on customer service provide us with competitive advantages for providing services to leading financial institutions. However, our devices do compete with the devices owned and operated by financial institutions and other IADs for underlying consumer transactions. In certain merchant location types, such as airports, large arenas or stadiums, we often will see competition from large financial institutions as the institutions may contemplate utilizing such locations for marketing and advertising purposes.

Through our Allpoint surcharge-free network, we have significantly expanded our relationships with local and regional financial institutions as well as large issuers of stored-value debit card programs. With regard to our Allpoint network, we encounter competition from other organizations' surcharge-free networks who are seeking to both sell their network to retail locations and offer surcharge-free ATM access to issuers of stored-value debit cards as well as smaller financial institutions that lack large ATM footprints.

As previously noted, we are increasing the types of services we provide to financial institutions and merchants, including providing services to manage their ATMs. With respect to our managed services offering, we believe we are well-positioned to offer a comprehensive ATM outsourcing solution with our breadth of services, in-house expertise, and network of existing locations, that can leverage the economies of the physical services required to operate an ATM portfolio. There are several large financial services companies, equipment manufacturers, and service providers that currently offer some of the services we provide, with whom we expect to compete directly in this area. In spite of this, we believe that we have unique advantages that will allow us to offer a compelling solution to financial institutions and retailers alike.

#### Government and Industry Regulation

Our principal business, ATM network ownership and operation, is subject to government (federal, state or local) regulation and industry regulations. Our failure to comply with applicable laws and regulations could result in restrictions on our ability to provide our products and services in such jurisdictions, as well as the imposition of civil fines. Recent regulatory matters that have impacted our operations or are expected to impact us in the future are discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Events, including financial regulatory reform in the U.S., recent regulatory updates under the Americans with Disabilities Act (“ADA”), the Europay, MasterCard, Visa (“EMV”) standard, restrictions on electronic benefit transfer (“EBT”) cards, financial regulatory reform in the U.K. and the European Union including the establishment of new governmental agencies, and U.K. property taxes.

#### Risk Management

Management has put in place a formalized Enterprise Risk Management (“ERM”) program that seeks to identify the major risks we face. The risks are prioritized, assigned to a member of the management team who develops mitigation plans, monitors the risk activity, and is responsible for implementation of the mitigation plan, if necessary. The risks, plans, and activities are monitored by our management team and Board of Directors on a regular basis.

#### Employees

As of December 31, 2013, we had approximately 1,070 employees, none of which were represented by a union or covered by a collective bargaining agreement.





## ITEM 1A. RISK FACTORS

### Risks associated with our industry

The proliferation of payment options other than cash, including credit cards, debit cards, stored-value cards, and mobile payments options could result in a reduced need for cash in the marketplace and a resulting decline in the usage of our ATMs.

The U.S. and other developed markets have seen a shift in consumer payment trends since the late 1990's, with more customers now opting for electronic forms of payment (e.g., credit cards and debit cards) for their in-store purchases over traditional paper-based forms of payment (e.g., cash and checks). Additionally, some merchants offer free cash back at the POS for customers that utilize debit cards for their purchases, thus providing an additional incentive for consumers to use these cards. According to the Nilson Report issued in December 2012, the percentage of cash transaction counts in the U.S. declined from approximately 36% of all payment transactions in 2006 to approximately 31% in 2011, with declines also seen in check usage as credit, debit and stored-value card transactions increased. However, in terms of absolute dollar value, the volume of cash used in payment transactions actually increased from \$1.5 trillion in 2006 to \$1.6 trillion in 2011. While we saw an increase in the number of cash withdrawal transactions conducted on our domestic ATMs over the past several years, in part due to the proliferation of stored-value cards, thus implying continued demand for convenient and reliable access to cash in the past few years, we have seen a decline in our transaction growth rate in recent periods. Additionally, the continued growth in electronic payment methods could result in a reduced need for cash in the marketplace and ultimately, a decline in the usage of our ATMs. New payment technology and adoption of such technology such as Square® mobile payment technology, virtual currencies such as Bitcoin, or other new payment method preferences by consumers could reduce the general population's need or demand for cash and negatively impact our transaction volumes in the future.

Interchange fees, which comprise a substantial portion of our transaction revenues, may be lowered in some cases at the discretion of the various EFT networks through which our transactions are routed, or through potential regulatory changes, thus reducing our future revenues.

Interchange fees, which represented approximately 33% of our total ATM operating revenues for the year ended December 31, 2013, are in some cases set by the various EFT networks through which transactions conducted on our devices are routed, and typically vary from one network to the next. As of December 31, 2013, approximately 6% of our total ATM operating revenues were subject to pricing changes by U.S. networks over which we currently have very limited ability to influence. Approximately 12% of our total ATM operating revenues during the year ended December 31, 2013 were derived from interchange revenues from our U.K. operation, where interchange rates are set by the major interbank network in that market, LINK, based on an annual cost-based study performed by an independent third-party organization. The remainder of reported interchange revenue reflects transaction-based revenues whereby we have contractually agreed to the rate with a financial institution or network. Accordingly, if some of the networks through which our ATM transactions are routed were to reduce the interchange rates paid to us

or increase their transaction fees charged to us for routing transactions across their network, our future transaction revenues could decline.

During the second quarter of 2012, a global network reduced the net interchange rates it pays to domestic ATM deployers for ATM transactions routed across its debit network through a combination of reducing the transaction rates charged to financial institutions and higher per transaction fees charged by the network to ATM operators. In addition to the impact of the net interchange rate decrease, we saw certain financial institutions migrate their volume away from other networks to take advantage of the lower pricing offered by this network and other lower-interchange networks, resulting in lower net interchange rates per transaction to us.

Additionally, some consumer groups in the U.S. have expressed concern that consumers using an ATM may not be aware that in addition to paying the surcharge fee that is disclosed to them at the ATM, their financial institution may also assess an additional fee to offset any interchange fee assessed to the financial institution by the EFT networks with regard to that consumer's transaction. While there are currently no pending legislative actions calling for limits on the amount of interchange fees that can be charged by the EFT networks to financial institutions for ATM transactions or the amount of fees that financial institutions can charge to their customers to offset their interchange expense, there can be no assurance that such legislative actions will not occur in the future. Any potential future network or legislative actions that affect the amount of interchange fees that can be assessed on a transaction may adversely affect our revenues.

Finally, interchange rates in the U.K., most of which are set by LINK, were reduced effective January 1, 2013 compared to 2012 rates. LINK sets the interchange rates in the U.K. annually by using a cost-based methodology that incorporates average operating costs, interest rates, and cash costs from two years back (i.e., average operating costs, interest rates, and other costs from 2011 are considered for determining the 2013 interchange rate). Since average operating costs, interest rates, and cash costs were lower in 2012 than in 2011, LINK reduced the interchange rates effective January 1, 2013; therefore, the interchange revenues generated by certain of our ATMs in the U.K. declined in 2013. However, the interchange rates for transactions that will be routed through LINK during 2014 have been slightly increased effective January 1, 2014. In addition to LINK transactions, certain card issuers in the U.K. have issued cards that are not affiliated with the LINK network, and instead carry the Visa or MasterCard network brands. Transactions conducted on our ATMs from these cards, which currently represent less than 2% of our annual withdrawal transactions in the U.K., receive interchange fees that are set by Visa or MasterCard, respectively. The interchange rates set by Visa and MasterCard have historically been less than the rates that have been

established by LINK. Accordingly, if any major financial institutions in the U.K. were to decide to leave the LINK network in favor of Visa or MasterCard, such a move could further reduce the interchange revenues that we receive from the related withdrawal transactions conducted on our ATMs in that market.

We operate in a changing and unpredictable regulatory environment. If we are subject to new legislation regarding the operation of our ATMs, we could be required to make substantial expenditures to comply with that legislation, which may reduce our net income and our profit margins.

With its initial roots in the banking industry, the U.S. ATM industry is regulated by the rules and regulations of the federal Electronic Funds Transfer Act, which establishes the rights, liabilities, and responsibilities of participants in EFT systems. The vast majority of states have few, if any, licensing requirements. However, legislation related to the U.S. ATM industry is periodically proposed at the state and local level. In recent years, certain members of the U.S. Congress called for a re-examination of the interchange and surcharge fees that are charged for an ATM transaction. As a part of the Dodd-Frank Act, the Consumer Financial Protection Bureau was created. The exact areas of oversight of this agency are still being formed, but it's possible that this new governmental agency could enact new or modify existing regulations that could have a direct or indirect impact on our business. For further discussion on this topic, see the risk factor below entitled The passage of legislation banning or limiting the fees we receive for transactions conducted on our ATMs would severely impact our revenues.

The ADA requires that ATMs be accessible to and independently usable by individuals with disabilities, such as visually-impaired or wheel-chair bound persons. The U.S. Department of Justice has issued accessibility regulations under the ADA that became effective in March 2012. Leading up to this deadline, we took measures to achieve compliance with the ADA for our ATMs, which required us to upgrade and replace a portion of our ATM fleet. It is possible that future similar regulations may require us to make more substantial expenditures and we may be forced to replace and or stop operating such ATMs until such time as compliance has been achieved.

Through our acquisition of the E\*Trade ATM portfolio in 2004, we became the sole defendant in the 2003 lawsuit filed by the National Federation of the Blind, the Commonwealth of Massachusetts, et. al. and certain individuals representing a class of similarly situated persons (the "Plaintiffs") against E\*Trade Access, Inc., et al. in the U.S. District Court for the District of Massachusetts: Civil Action No. 03-11206-NMG (the "Lawsuit"). The Plaintiffs sought to require, among other things, that ATMs deployed by E\*Trade be voice-guided. In December 2007, we and Plaintiffs entered into a settlement agreement (as modified in November 2010, the "Settlement Agreement"). In 2011 and again in 2012, the Plaintiffs filed a motion of contempt with the District Court alleging that we had failed to fully comply with the requirements of the Settlement Agreement, which exceed the requirements imposed upon us by the ADA. In April 2013, the Court appointed a Special Master to determine how many of our ATMs were not in compliance with the Settlement Agreement as of March 15, 2012 and to determine an appropriate sanction or fine for such noncompliance, if any. Since his appointment, the Special Master has met three times with all the parties, reviewed all matters thought relevant by him and in December 2013, filed under seal his Report and Recommendation with the Court. The parties have until March 21, 2014 to file any objection to the report or to enter into any further mutually agreed modification to the Settlement Agreement.

In the U.K., the ATM industry is largely self-regulating. Most ATMs in the U.K. are part of the LINK network and must operate under the network rules set forth by LINK, including complying with rules regarding required signage and screen messages. However, in March 2013, the U.K. Treasury department issued a formal recommendation to further regulate the U.K. payments industry, including LINK, the nation's formal ATM scheme. In October 2013, the U.K. government responded by establishing the new Payment Systems Regulator ("PSR") to oversee any payment system operating in the U.K. and its participants. We are currently uncertain of the effect the new regulator will have on LINK, its rules and its interchange rate setting process. At this time, we are uncertain what impact, if any, this new regulator will have on our business.

In July 2013, the European Commission put forward a new draft directive (the "draft Directive") to regulate payment service providers operating in the European Union ("PSD2"). Broadly, PSD2 seeks to harmonize rules for the licensing of payment institutions and introduces certain common rules affecting all payment service providers ("PSPs") throughout the European Union. The draft Directive sets out the rights and obligations of payment service users and PSPs together with transparency and security requirements to facilitate safe, efficient payment transactions. Whereas the current Payment Services Directive exempts independent ATM deployers, PSD2 (as currently drafted) will apply to businesses of this nature. The draft Directive is currently still in Committee stage in the European Parliament and has not yet been properly considered by the Council. We anticipate that the draft Directive will not be finalized until 2015 and that it will take up to an additional two years for member states to transpose it into domestic law. In parallel with PSD2, the European Commission has introduced a new Regulation ("MIF Regulation") aimed at reducing the level of interchange fees charged by card schemes for POS transactions, as well as altering certain of the business rules contained in card scheme rulebooks. The fee caps in the MIF Regulation do not apply to cash withdrawal transactions at ATMs, but certain of the other provisions in the MIF Regulation could apply to ATM operators (although their precise effects are currently uncertain). The Regulation is also currently in Committee stage at the European Parliament and we anticipate that there will be significant amendments to the Commission's text by the time the Parliament adopts its official position. We anticipate that the MIF Regulation will be finalized in 2015, but in contrast to PSD2, the MIF Regulation will be directly effective in the member states and will not require any further implementing legislation. At this time, we are uncertain what impact, if any, these proposed regulatory changes will have on our business.

Legislation is proposed from time-to-time at the national level. We are also subject to various regulations in other jurisdictions that we operate in, including Mexico and Canada. Legislation proposed in any of the jurisdictions that we operate in, or adverse changes in the laws that we are subject to, may materially affect our business through the requirement of additional expenditures to comply with that legislation. We will continue to monitor all such legislation and attempt, to the extent possible, to prevent the passage of such laws that we believe are needlessly burdensome or unnecessary. If regulatory legislation is passed in any of the jurisdictions in which we operate, we could be required to make substantial expenditures which would reduce our net income.

Security breaches could harm our business by compromising merchant and cardholder information and disrupting our transaction processing services, thus damaging our relationships with our merchant customers and exposing us to liability.

As part of our transaction processing services, we electronically process and transmit cardholder information. In recent years, companies that process and transmit this information have been specifically and increasingly targeted by sophisticated criminal organizations in an effort to obtain the information and utilize it for fraudulent transactions. We also maintain a proprietary database of merchant customer profiles. The encryption software and the other technologies we and our partners use to provide security for storage, processing and transmission of confidential customer and other information may not be effective to protect against data security breaches. The risk of unauthorized circumvention of our security measures has been heightened by advances in computer capabilities and the increasing sophistication of hackers. Unauthorized access to our computer systems, or those of our third-party service providers, could result in the theft or publication of the information or the deletion or modification of sensitive records, and could cause interruptions in our operations. Any inability to prevent security breaches could damage our relationships with our merchant customers, cause a decrease in transactions by individual cardholders, expose us to liability including claims for unauthorized purchases, and subject us to network fines. These claims also could result in protracted and costly litigation. If unsuccessful in defending that litigation, we might be forced to pay damages and/or change our business practices. Further, a significant data security breach could lead to additional regulation, which could impose new and costly compliance obligations. Any material increase in our costs resulting from additional regulatory burdens being imposed upon us or litigation could have a material adverse effect on our operating revenues and profitability.

Computer viruses or unauthorized software (malware) could harm our business by disrupting our transaction processing services, causing noncompliance with network rules and damaging our relationships with our merchant customers, causing a decrease in transactions by individual cardholders.

Computer viruses or malware could infiltrate our systems, thus disrupting our delivery of services and making our applications unavailable. Although we utilize several preventative and detective security controls in our network, they may be ineffective in preventing computer viruses or malware that could damage our relationships with our merchant customers, cause a decrease in transactions by individual cardholders, or cause us to be in non-compliance with applicable network rules and regulations.

The ATM industry is highly competitive and such competition may increase, which may adversely affect our profit margins.

The ATM business is and can be expected to remain highly competitive. Our principal competition comes from independent ATM companies and national and regional financial institutions in all of the countries in which we operate. Our competitors could prevent us from obtaining or maintaining desirable locations for our devices, cause us to reduce the surcharge revenue generated by transactions at our devices, or cause us to pay higher merchant fees, thereby reducing our profits. In addition to our current competitors, additional competitors may enter the market. We can offer no assurance that we will be able to compete effectively against these current and future competitors. Increased competition could result in transaction fee reductions, reduced gross margins and loss of market share.

The passage of legislation banning or limiting the fees we receive for transactions conducted on our ATMs would severely impact our revenues.

Despite the nationwide acceptance of surcharge fees at ATMs in the U.S. since their introduction in 1996, consumer activists have from time to time attempted to impose local bans or limits on surcharge fees. Even in the few instances where these efforts have passed the local governing body (such as with an ordinance adopted by the city of Santa Monica, California), federal courts have overturned these local laws on federal preemption grounds. Although Section 1044 of the Dodd-Frank Act passed in July 2010 contains a provision that will limit the application of federal preemption with respect to state laws that do not discriminate against national banks, federal preemption will not be affected by local municipal laws, where such proposed bans or limits often arise. More recently, some federal officials have expressed concern that surcharge fees charged by banks and non-bank ATM operators are unfair to consumers. To that end, in 2010, an amendment proposing limits on the fees that ATM operators, including financial institutions, can charge consumers was introduced in the U.S. Senate, but was not ultimately included in the final version of the Dodd-Frank Act that was signed into law. If similar proposed legislation were to be enacted in the future, and the amount we were able to charge for consumers to use our ATMs was reduced, our revenues and related profitability would be negatively impacted. Furthermore, if such limits were set at levels that are below our current or future costs to operate our ATMs, it would have a material adverse impact on our ability to continue to operate under our current business model.

In the U.K., the Treasury Select Committee of the House of Commons published a report regarding surcharges in the ATM industry in March 2005. Following this report, this committee was formed to investigate public concerns regarding the ATM industry, including (1) adequacy of disclosure to ATM customers regarding surcharges, (2) whether ATM providers should be required to provide free services in

low-income areas, and (3) whether to limit the level of surcharges. While the committee made numerous recommendations to Parliament regarding the ATM industry, including that ATMs should be subject to the Banking Code (a voluntary code of practice adopted by all financial institutions in the U.K.), the U.K. government did not accept the committee's recommendations. Despite the rejection of the committee's recommendations, the U.K. government sponsored an ATM task force to look at social exclusion in relation to ATM services. As a result of the task force's findings, approximately 600 additional free-to-use ATMs (to be provided by multiple ATM providers) were required to be installed in low income areas throughout the U.K. While this was less than a 2% increase in free-to-use ATMs throughout the U.K., there is no certainty that other similar proposals will not be made and accepted in the future. If the legislature or another body with regulatory authority in the U.K. were to impose limits on the level of surcharges for ATM transactions, our revenue from operations in the U.K. would be negatively impacted.

In Mexico, surcharging for off-premise ATMs was legalized in late 2003, but was not formally implemented until July 2005. In early October 2009, the Central Bank of Mexico adopted new rules regarding how ATM operators disclose fees to consumers. The objective of these rules was to provide more transparency to the consumer regarding the cost of a specific ATM transaction, rather than to limit the amount of fees charged to the consumer. Such rules, which became effective in May 2010, required ATM operators to elect between receiving interchange fees from card-issuing banks or surcharge fees from consumers. Cardtronics Mexico elected to assess a surcharge fee on the consumer rather than select the interchange fee-only option, and subsequently raised the level of its surcharge fees in order to recoup the interchange fees it is no longer receiving. Since the new fee structure became effective, the number of surcharge withdrawal transactions conducted on Cardtronics Mexico's ATMs has substantially declined on a same-store basis, and, to date, there has been no indication that suggests transaction levels will recover to levels experienced prior to the new rules being in effect. At the current transaction levels, the additional surcharge fee amounts at a number of Cardtronics Mexico's ATMs are not sufficient to offset the lost interchange revenues, which has resulted in lower revenues and profitability per ATM in that market.

Potential new currency designs may require modifications to our ATMs that could severely impact our cash flows.

In that action styled: American Council of the Blind, et. al., v. Timothy F. Geithner, Secretary of the Treasury (Case #1:02-cv-00864) in the U.S. District Court for the District of Columbia (the "Court") an order was entered that found that U.S.'s currencies (as currently designed) violated the Rehabilitation Act, a law that prohibits discrimination in government programs on the basis of disability, as the paper currencies issued by the U.S. are identical in size and color, regardless of denomination. As a consequence of this ruling, the U.S. Treasury stated in its semi-annual status report filed with the Court in September 2012, that the Bureau of Engraving and Printing ("BEP") was making progress towards implementing the Secretary's decision to provide meaningful access to paper currency by "(1) adding a raised tactile feature to each Federally Reserve note that the BEP may lawfully redesign; (2) continuing the BEP's program of adding large high-contrast numerals and different colors to each denomination that it may lawfully redesign; and (3) implementing a supplemental currency reader distribution program for blind and other visually impaired U.S. citizens and legal residents." Of these three steps only the first materially affects the ATM industry. While it is still uncertain at this time what impact, if any, adding a raised tactile feature to notes that may be dispensed from an ATM will have on the ATM industry (including us), it is possible that such a change could require us to incur additional costs, which could be substantial, to modify our ATMs in order to store and dispense notes with raised tactile features.

Risks associated with our business

We depend on ATM and financial services transaction fees for substantially all of our revenues, and our revenues and profits would be reduced by a decline in the usage of our ATMs and financial services kiosks or a decline in the number of devices that we operate, whether as a result of global economic conditions or otherwise.

Transaction fees charged to cardholders and their financial institutions for transactions processed on our ATMs and financial services kiosks, including surcharge and interchange transaction fees, have historically accounted for most of our revenues. We expect that transaction fees, including fees we receive through our bank branding and surcharge-free network offerings, will continue to account for a substantial majority of our revenues for the foreseeable future. Consequently, our future operating results will depend on (1) the market acceptance of our services in our target markets, (2) the level of transaction fees we receive, (3) our ability to install, acquire, operate, and retain more devices, (4) usage of our devices by cardholders, and (5) our ability to continue to expand our surcharge-free and other consumer financial services offerings. If alternative technologies to our services are successfully developed and implemented, we will likely experience a decline in the usage of our devices. Surcharge fees, which are determined through negotiations between us and our merchant partners, could be reduced over time. Further, growth in surcharge-free ATM networks and widespread consumer bias toward these networks could adversely affect our revenues, even though we maintain our own surcharge-free offerings. Many of our devices are utilized by consumers that frequent the retail establishments in which our devices are located, including convenience stores and gas stations, malls, grocery stores, drug stores, airports, and other large retailers. If there is a significant slowdown in consumer spending, and the number of consumers that frequent the retail establishments in which we operate our devices declines significantly, the number of transactions conducted on those devices, and the corresponding transaction fees we earn, may also decline. A decline in usage of our devices by cardholders or in the levels of fees received by us in connection with this usage, or a decline in the number of devices that we operate, would have a negative impact on our revenues and gross profits and would limit our future growth. For further discussion on interchange fees, see the risk factor above entitled Interchange fees, which comprise a substantial portion of our transaction revenues, may be lowered in some cases at the discretion of the various EFT networks through which our transactions are routed, or through potential regulatory changes, thus reducing our future revenues.



Deterioration in global credit markets, as well as changes in legislative and regulatory requirements, could have a negative impact on financial institutions that we conduct business with.

We have a significant number of customer and vendor relationships with financial institutions in all of our key markets, including relationships in which those financial institutions pay us for the right to place their brands on our devices. Additionally, we rely on a small number of financial institution partners to provide us with the cash that we maintain in our Company-owned devices and some of our merchant-owned ATMs. Volatility in the global credit markets, such as that experienced in 2008 to 2009, may have a negative impact on those financial institutions and our relationships with them. In particular, if the liquidity positions of the financial institutions with which we conduct business deteriorate significantly, these institutions may be unable to perform under their existing agreements with us. If these defaults were to occur, we may not be successful in our efforts to identify new branding partners and cash providers, and the underlying economics of any new arrangements may not be consistent with our current arrangements. Furthermore, if our existing bank branding partners or cash providers are acquired by other institutions with assistance from the Federal Deposit Insurance Corporation ("FDIC"), or placed into receivership by the FDIC, it is possible that our agreements may be rejected in part or in their entirety.

We rely on third parties to provide us with the cash we require to operate many of our devices. If these third parties were unable or unwilling to provide us with the necessary cash to operate our devices, we would need to locate alternative sources of cash to operate our devices or we would not be able to operate our business.

In the U.S., including Puerto Rico, we rely on Bank of America, Wells Fargo, Elan, and other vault cash providers to provide us with the cash that we use in approximately 33,500 of our domestic devices where cash is not provided by the merchant. In the U.K., we rely on Santander and Barclays to provide us with the vault cash that we use in over 8,500 of our ATMs. In Germany, we also rely on a third party to provide us with the vault cash that we use in over 800 of our ATMs. In Mexico, we have three vault cash providers that provide us with the cash that we use in approximately 2,000 of our ATMs in that market. In Canada, we also rely on financial institutions to provide us with the cash that we use in approximately 600 of our ATMs in that market. Under our vault cash rental agreements with these providers, we pay a vault cash rental fee based on the total amount of vault cash that we are using at any given time. For the quarter ended December 31, 2013, the average balance of vault cash held in our domestic ATMs was approximately \$2.0 billion, \$661.9 million in our ATMs in the U.K., and \$129.3 million in our other international subsidiaries.

Under our vault cash rental agreements, at all times during this process, beneficial ownership of the cash is retained by the cash providers, and we have no access or right to the cash except for those ATMs that are serviced by Green Team, our wholly-owned armored courier operation in the U.K. While our armored courier operation has physical access to the cash loaded in those machines, beneficial ownership of that cash remains with the cash provider at all times.

Our existing vault cash rental agreements expire at various times from March 2014 through December 2016. However, each provider has the right to demand the return of all or any portion of its cash at any time upon the occurrence of certain events beyond our control, including certain bankruptcy events of us or our subsidiaries, or a

breach of the terms of our cash provider agreements. Other key terms of our agreements include the requirement that the cash providers provide written notice of their intent not to renew. Such notice provisions typically require a minimum of 180 to 360 days' notice prior to the actual termination date. If such notice is not received, then the contracts will typically automatically renew for an additional one-year period. Additionally, our contract with one of our vault cash providers contains a provision that allows the provider to modify the pricing terms contained within the agreement at any time with 90 days prior written notice. However, in the event both parties do not agree to the pricing modifications, then either party may provide 180 days prior written notice of its intent to terminate.

If our vault cash providers were to demand return of their cash or terminate their arrangements with us and remove their cash from our devices, or if they fail to provide us with cash as and when we need it for our operations, our ability to operate our devices would be jeopardized, and we would need to locate alternative sources of vault cash. In the event this was to happen, the terms and conditions of the new or renewed agreements could potentially be less favorable to us, which would negatively impact our results of operations. Furthermore, restrictions on our access to cash to fill our devices could severely restrict our ability to keep our devices operating, and could subject us to performance penalties under our contracts with our customers.

We derive a substantial portion of our revenue from devices placed with a small number of merchants. If one or more of our top merchants were to suffer a material deterioration of their business and cease doing business with us, or to substantially reduce its dealings with us, our revenues could decline.

For the year ended December 31, 2013, we derived 41% of our pro forma revenues from ATMs and financial services kiosks placed at the locations of our five largest merchant customers. Pro forma revenues are our actual total revenues for 2013 and the pro forma effect of the Cardpoint acquisition for the entire year of 2013. For the year ended December 31, 2013, our top five merchants (based on our total revenues) were 7-Eleven, CVS, Walgreens, Speedway, and Valero. 7-Eleven, which is the single largest merchant customer in our portfolio, comprised approximately 24% of our pro forma revenues for the year ended December 31, 2013 and also accounts for a significant portion of our income. Accordingly, a significant percentage of our future revenues and operating income will be dependent upon the successful continuation of our relationship with 7-Eleven as well as our other top merchants.

The loss of any of our largest merchants or a decision by any one of them to reduce the number of our devices placed in their locations would result in a decline in our revenues. Furthermore, if their financial conditions were to deteriorate in the future, and as a result, one or more of these merchants was required to close a significant number of their store locations, our revenues would be significantly impacted. Additionally, these merchants may elect not to renew their contracts when they expire. As of December 31, 2013, the contracts we have with our top five merchants have a weighted average remaining life of 3.3 years, and our current contract with 7-Eleven expires in July 2017. Even if such contracts are renewed, the renewal terms may be less favorable to us than the current contracts. If any of our five largest merchants enters bankruptcy proceedings and rejects its contract with us, fails to renew its contract upon expiration, or if the renewal terms with any of them are less favorable to us than under our current contracts, it could result in a decline in our revenues and profits.

We rely on EFT network providers, transaction processors, armored courier providers, and maintenance providers to provide services to our ATMs. If some of these providers that service a significant number of our ATMs fail or otherwise cease or no longer agree to provide their services, we could suffer a temporary loss of transaction revenues, incur significant costs or suffer the permanent loss of any contract with a merchant or financial institution affected by such disruption in service.

We rely on EFT network providers and have agreements with various transaction processors, armored courier providers, and maintenance providers. These providers enable us to provide card authorization, data capture, settlement, cash management and delivery, and maintenance services to our ATMs. Typically, these agreements are for periods of two or three years each. If we improperly manage the renewal or replacement of any expiring vendor contracts, or a key vendor fails or otherwise ceases to provide the services for which we have contracted and disruption of service to our ATMs occurs, our relationship with those merchants and financial institutions affected by the disrupted ATM service could suffer.

While we have more than one provider for each of the services that we rely on third parties to perform, certain of these providers currently provide services to or for a significant number of our ATMs. Although we would be able to transition these services to alternative service providers, this could be a time-consuming and costly process. In the event one of such service providers was unable to deliver services to us, we could suffer a significant disruption in our business, which could result in a material adverse impact to our financial results. Furthermore, any disruptions in service in any of our markets, whether caused by us or by third-party providers, may result in a loss of revenues under certain of our contractual arrangements that contain minimum service-level requirements.

In February 2010, we incurred a temporary disruption in our armored courier service on a portion of our domestic ATMs when Mount Vernon Money Center (“MVMC”), one of our third-party armored service providers in the Northeast U.S., ceased all cash replenishment operations for its customers following the arrest of its founder and principal owner on charges of bank fraud. Shortly thereafter, the U.S. District Court in the Southern District of New York appointed a receiver to, among other things, seize all of the assets in the possession of MVMC. As a result of these actions, we were required to convert over 1,000 ATMs that were being serviced by MVMC to another third-party armored service provider, resulting in a minor amount of downtime being experienced by those ATMs and some one-time service conversion costs. If any of our larger service providers cease or no longer agree to provide their services, we may experience additional disruptions in our services and may incur significant conversion costs to divert those services to another service provider.

If we, our transaction processors, our EFT networks or other service providers experience system failures, the products and services we provide could be delayed or interrupted, which would harm our business.

Our ability to provide reliable service largely depends on the efficient and uninterrupted operations of our EFT transaction processing platform, third-party transaction processors, telecommunications network systems, and other service providers. Accordingly, any significant interruptions could severely harm our business and reputation and result in a loss of revenues. Additionally, if any interruption is caused by us, especially in those situations in which we serve as the primary transaction processor, such interruption could result in the loss of the affected merchants and financial institutions, or damage our relationships with them. Our systems and operations and those of our transaction processors and our EFT network and other service providers could be exposed to damage or interruption from fire, natural disaster, unlawful acts, terrorist attacks, power loss, telecommunications failure, unauthorized entry, and computer viruses, among other things. We cannot be certain that any measures we and our service providers have taken to prevent system failures will be successful or that we will not experience service interruptions.

Our armored transport business exposes us to additional risks beyond those currently experienced by us in the ownership and operation of ATMs.

During 2008, we implemented our own armored courier operation in the U.K., which was further expanded to two cash depot facilities during 2010. As of December 31, 2013, we were providing armored services to over 2,900 of our ATMs in that market and we currently intend to further expand that operation to service additional ATMs, including those acquired through the Cardpoint acquisition in 2013. Additionally, we currently expect that we will begin providing similar armored courier services to third parties in the near future. The armored transport business exposes us to significant risks, including the potential for cash-in-transit losses, employee theft, as well as claims for personal injury, wrongful death, worker's compensation, punitive damages, and general liability. While we seek to maintain appropriate levels of insurance to adequately protect us from these risks, there can be no assurance that we will avoid significant future claims or adverse publicity related thereto. Furthermore, there can be no assurance that our insurance coverage will be adequate to cover potential liabilities or that insurance coverage will remain available at costs that are acceptable to us. The availability of quality and reliable insurance coverage is

an important factor in our ability to successfully operate this aspect of our operations. A loss claim for which insurance coverage is denied or that is in excess of our insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

Operational failures in our EFT transaction processing facilities could harm our business and our relationships with our merchant and financial institution customers.

An operational failure in our EFT transaction processing facilities could harm our business and damage our relationships with our merchant and financial institution customers. Damage or destruction that interrupts our transaction processing services could also cause us to incur substantial additional expense to repair or replace damaged equipment. We have installed back-up systems and procedures to prevent or react to such disruptions. However, a prolonged interruption of our services or network that extends for more than several hours (i.e., where our backup systems are not able to recover) could result in data loss or a reduction in revenues as our devices would be unable to process transactions. In addition, a significant interruption of service could have a negative impact on our reputation and could cause our present and potential merchant and financial institution customers to choose alternative service providers, as well as subject us to fines or penalties related to contractual service agreements.

Errors or omissions in the settlement of merchant funds could damage our relationships with our merchant customers and expose us to liability.

We are responsible for maintaining accurate bank account information for certain of our merchant customers and accurate settlements of funds into these accounts based on the underlying transaction activity. This process relies on precise and authorized maintenance of electronic records. Although we have controls in place to help ensure the safety and accuracy of our records, errors or unauthorized changes to these records could result in the erroneous or fraudulent movement of funds, thus damaging our relationships with our merchant customers and exposing us to liability.

Changes in interest rates could increase our operating costs by increasing interest expense under our credit facilities and our vault cash rental costs.

Interest on amounts borrowed under our revolving credit facility is based on a floating interest rate, and our vault cash rental expense is based primarily on floating interest rates. As a result, our interest expense and cash management costs are sensitive to changes in interest rates. We pay rental fees on the average amount of vault cash outstanding in our ATMs under floating rate formulas based on a spread above various LIBOR rates in the U.S., U.K., and Germany. In Mexico, we pay a monthly rental fee to one of our vault cash providers under a formula based on the Interbank Equilibrium Interest Rate (commonly referred to as the "TIIE") and in Canada, the rate is based on the Bankers Acceptance Rate. Although we currently hedge a portion of our vault cash interest rate risk related to our operations in the U.S. through December 31, 2018 by using interest rate swap agreements, we may not be able to enter into similar arrangements for similar amounts in the future. Furthermore, we have not currently entered into any derivative

financial instruments to hedge our variable interest rate exposure in our international subsidiaries. Any significant future increases in interest rates could have a negative impact on our earnings and cash flow by increasing our operating costs and expenses. For additional information, see Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk, Interest Rate Risk.

We maintain a significant amount of cash within our Company-owned devices, which is subject to potential loss due to theft or other events, including natural disasters.

For the quarter ended December 31, 2013, there was an average of approximately \$2.7 billion in vault cash held in our domestic and international ATMs. Any loss of cash from our ATMs is generally our responsibility. We typically require that our service providers, who either transport the cash or otherwise have access to the ATM safe, maintain adequate insurance coverage in the event cash losses occur as a result of theft, misconduct, or negligence on the part of such providers. Cash losses at the ATM occur in a variety of ways, such as natural disaster (hurricanes, tornadoes, etc.), fires, vandalism, and physical removal of the entire ATM, defeating the interior safe or by compromising the ATM's technology components. Because our ATMs are often installed at retail sites, they face exposure to attempts of theft and vandalism. Thefts of cash may be the result of an individual acting alone or as a part of a crime group. In recent periods, we have seen an increase in theft of cash from our ATMs across all of the geographic regions in which we operate. For instance, during the fourth quarter of 2013, in response to increased physical ATM theft attempts and lower profitability on certain ATMs in Mexico, we took a number of ATMs out of service for a period of time to enhance some security features. While we maintain insurance policies to cover a significant portion of any losses that may occur that are not covered by the insurance policies maintained by our service providers, such insurance coverage is subject to deductibles, exclusions and limitations that may leave us bearing some or all of those losses.

Any increase in the frequency and/or amounts of theft and other losses could negatively impact our operating results by causing higher deductible payments and increased insurance premiums. Additionally, any damage sustained to our merchant customers' store locations in connection with any ATM-related thefts, if extensive and frequent enough in nature, could negatively impact our relationships with those merchants and impair our ability to deploy additional ATMs in those existing or new locations of those merchants. Certain merchants have requested, and could request in the future, that we remove ATMs from store locations that have suffered damage as a result of ATM-related thefts, thus negatively impacting our financial results. Finally, we have in the past, and may in the future, voluntarily remove cash from

certain ATMs on a temporary or permanent basis to mitigate further losses arising from theft or vandalism. Depending on the magnitude and duration of any cash removal, our revenues and profits could be materially and adversely affected.

The election of our merchant customers to not participate in our surcharge-free network offerings could impact the effectiveness of our offerings, which would negatively impact our financial results.

Financial institutions that are members of the Allpoint network pay a fee in exchange for allowing their cardholders to use selected Company-owned and/or managed ATMs on a surcharge-free basis. The success of the Allpoint network is dependent upon the participation by our merchant customers in that network. In the event a significant number of our merchants elect not to participate in that network, the benefits and effectiveness of the network would be diminished, thus potentially causing some of the participating financial institutions to not renew their agreements with us, and thereby negatively impacting our financial results.

We may be unable to integrate our future acquisitions in an efficient manner and inefficiencies would increase our cost of operations and reduce our profitability.

We have been an active business acquirer both in the U.S. and internationally, and may continue to be active in the future. The acquisition and integration of businesses involves a number of risks. The core risks are in the areas of valuation (negotiating a fair price for the business based on inherently limited due diligence) and integration (managing the complex process of integrating the acquired company's personnel, products, technology, and other assets so as to realize the projected value of the acquired company and the synergies projected to be realized in connection with the acquisition).

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of our combined businesses and the possible loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with acquisitions and the integration of the companies' operations could have an adverse effect on our business, results of operations, financial condition or prospects.

In addition, acquired businesses may not achieve anticipated revenues, earnings or cash flows. Any shortfall in anticipated revenues, earnings, or cash flows could require us to write down the carrying value of the intangible assets associated with any acquired company, which would adversely affect our reported earnings. For example, during the year ended December 31, 2008, we recorded a \$50.0 million impairment charge to write down the value of the goodwill associated with our investment in the U.K. operations we operated at that time.

Since May 2001, we have acquired 23 ATM portfolios, a surcharge-free ATM network, a technology product offering that complements our surcharge-free offering, an ATM installation company in the U.K., and a Scotland-based

provider and developer of marketing and advertising software and services for ATM owners. We have made acquisitions to obtain the assets of deployed ATM networks and the related businesses and their infrastructure, as well as for strategic reasons to enhance the capability of our ATMs and expand our service offerings. We currently anticipate that our future acquisitions, if any, will likely reflect a mix of asset acquisitions and acquisitions of businesses, with each acquisition having its own set of unique characteristics. To the extent that we elect to acquire an existing company or the operations, technology, and the personnel of the company, we may assume some or all of the liabilities associated with the acquired company and face new and added challenges integrating such acquisition into our operations.

We completed five business acquisitions in 2013, three business acquisitions in 2012, and four business acquisitions in 2011. Any inability on our part to effectively manage the acquisition integration process could limit our ability to successfully grow the revenue and profitability of our business.

Our international operations, including any future international operations, involve special risks and may not be successful, which would result in a reduction of our gross and net profits.

As of December 31, 2013, 20% of our devices were located in the U.K., Germany, Mexico, and Canada. Those devices contributed 15% of our gross profits (exclusive of depreciation, accretion, and amortization) for the year ended December 31, 2013. We expect to continue to expand in the countries in which we currently operate, and potentially into other countries as opportunities arise. However, our international operations are subject to certain inherent risks, including:

- exposure to currency fluctuations, including the risk that our future reported operating results could be negatively impacted by unfavorable movements in the functional currencies of our international operations relative to the U.S. dollar, which represents our consolidated reporting currency;
- difficulties in complying with the different laws and regulations in each country and jurisdiction in which we operate, including unique labor and reporting laws;
- unexpected changes in laws, regulations, and policies of foreign governments or other regulatory bodies, including changes that could potentially disallow surcharging or that could result in a reduction in the amount of interchange or other transaction-based fees that we receive;
- unanticipated political and social instability that may be experienced;



- rising crime rates in certain of the areas we operate in, including increased incidents of crimes on our ATMs and against store personnel where our ATMs are located;
- difficulties in staffing and managing foreign operations, including hiring and retaining skilled workers in those countries in which we operate;
- decreased ATM usage related to decreased travel and tourism in the markets that we operate in, such as our ATMs in Mexico that are located in tourist destinations; and
- potential adverse tax consequences, including restrictions on the repatriation of foreign earnings.

Any of these factors could reduce the profitability and revenues derived from our international operations and international expansion. For example, during the latter half of 2008 and during 2009, we incurred reduced reported revenues as a consequence of the U.S. dollar strengthening relative to the British pound and Mexican peso. Additionally, regulatory changes in Mexico have had an adverse impact on our transaction volumes in that market. Furthermore, the recent political and social instability in Mexico resulting from an increase in drug-related violence could negatively impact the level of transactions conducted on our existing devices in that market, as well as our ability to successfully grow our business there. In 2013, as a result of a change in approach by the U.K. governmental entity that oversees property tax valuations and assessments, we recorded additional estimated property tax expense of \$8.7 million related to some of our ATM sites, most of which related to periods prior to 2013, even though we previously had no obligation to report or remit such taxes.

Further consolidations within the banking industry may impact our branding relationships as existing branding customers are acquired by other financial institutions, some of which may not be existing branding customers.

During the financial crisis of 2008 and 2009, an unprecedented amount of consolidation unfolded within the U.S. banking industry. For example, Washington Mutual, which had over 950 ATMs branded with us, was acquired by JPMorgan Chase, an existing branding customer of ours, in 2008. Additionally, Wachovia, which had 15 high-transaction ATMs branded with us, was acquired by Wells Fargo, a bank that was not an existing branding customer of ours, at the end of 2008. Furthermore, in 2009, Sovereign Bank, which currently has over 1,150 ATMs branded with us, was acquired by Banco Santander, one of the largest banks in Europe. Although our branding contracts were largely unaffected by these transactions, we cannot provide assurance that they will remain unaffected by future consolidations that may occur within the banking industry, and in particular, our branding partners.

If we experience impairments of our goodwill or other intangible assets, we will be required to record a charge to earnings, which may be significant.

We have a large amount of goodwill and other intangible assets and are required to perform periodic assessments for any possible impairment for accounting purposes. As of December 31, 2013, we had goodwill and other intangible assets of \$566.1 million, or 54% of our total assets. During the year ended December 31, 2013, we added \$195.3 million in goodwill and intangible assets associated with the acquisition of five businesses in the year. We periodically evaluate the recoverability and the amortization period of our intangible assets under accounting principles generally accepted in the U.S. ("U.S. GAAP"). Some of the factors that we consider to be important in assessing whether or not impairment exists include the performance of the related assets relative to the expected historical or projected future operating results, significant changes in the manner of our use of the assets or the strategy for our overall business,

and significant negative industry or economic trends. These factors and assumptions, and any changes in them, could result in an impairment of our goodwill and other intangible assets. In the event we determine our goodwill or amortizable intangible assets are impaired, we may be required to record a significant charge to earnings in our financial statements, which would negatively impact our results of operations and that impact could be material. For example, during the year ended December 31, 2008, we recorded a \$50.0 million goodwill impairment charge related to our U.K. operations. Other impairment charges in the future may also adversely affect our results of operations.

We have a substantial amount of indebtedness, which may adversely affect our cash flow and our ability to operate our business, remain in compliance with debt covenants, and make payments on our indebtedness.

As of December 31, 2013, our outstanding indebtedness was \$490.5 million, which represents 66.5% of our total book capitalization of \$737.6 million. Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including financial and other restrictive covenants, could result in an event of default under the indentures governing our senior subordinated notes and the agreements governing our other indebtedness;
- require us to dedicate a substantial portion of our cash flow in the future to pay principal and interest on our debt, which will reduce the funds available for working capital, capital expenditures, acquisitions, and other general corporate purposes;
- limit our flexibility in planning for and reacting to changes in our business and in the industry in which we operate;
  - make us more vulnerable to adverse changes in general economic, industry and competitive conditions, and adverse changes in government regulation; and
- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy, research and development costs, or other purposes.

Any of these factors could materially and adversely affect our business and results of operations. If we do not have sufficient earnings to service our debt, we may be required to refinance all or part of our existing debt, sell assets, borrow more money, or sell securities, none of which we can guarantee we will be able to do.

The terms of our credit agreement and the indentures governing our senior subordinated notes may restrict our current and future operations, particularly our ability to respond to changes in our business or to take certain actions.

Our credit agreement and the indentures governing our senior subordinated notes include a number of covenants that, among other items, restrict or limit our ability to:

- sell or transfer property or assets;
- pay dividends on or redeem or repurchase stock;
- merge into or consolidate with any third-party;
- create, incur, assume, or guarantee additional indebtedness;
- create certain liens;
- make investments;
- engage in transactions with affiliates;
- issue or sell preferred stock of restricted subsidiaries; and
- enter into sale and leaseback transactions.

In addition, we are required by our credit agreement to adhere to certain covenants and maintain specified financial ratios. While we currently have the ability to borrow the full amount available under our credit agreement, as a result of these ratios, we may be limited in the manner in which we conduct our business in the future and may be unable to engage in favorable business activities or finance our future operations or capital needs. Accordingly, these restrictions may limit our ability to successfully operate our business and prevent us from fulfilling our debt obligations. A failure to comply with the covenants or financial ratios could result in an event of default. In the event of a default under our credit agreement, the lenders could exercise a number of remedies, some of which could result in an event of default under the indentures governing the senior subordinated notes. An acceleration of indebtedness under our credit agreement would also likely result in an event of default under the terms of any other financing arrangement we have outstanding at the time. If any or all of our debt were to be accelerated, we cannot assure you that our assets would be sufficient to repay our indebtedness in full. If we are unable to repay any amounts outstanding under our bank credit facility when due, the lenders will have the right to proceed against the collateral securing our indebtedness. For additional information about our credit agreement and indentures, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Financing Facilities.

The fundamental change and make-whole fundamental change provisions associated with our convertible notes may delay or prevent an otherwise beneficial takeover attempt of us.

The fundamental change purchase rights, which will allow holders of our convertible notes to require us to purchase all or a portion of their notes upon the occurrence of a fundamental change, and the provisions requiring an increase to the conversion rate for conversions in connection with certain other circumstances may delay or prevent a takeover of us or the removal of current management that might otherwise be beneficial to investors.

We may not have the ability to raise the funds necessary to pay the amount of cash due upon conversion of the convertible notes, if relevant, or upon the occurrence of a fundamental change as described in our convertible indentures, and our debt may contain limitations on our ability to pay cash upon conversion or required purchase of the convertible notes.

Upon the occurrence of a fundamental change, holders of our convertible notes may require us to purchase, for cash, all or a portion of their convertible notes at a fundamental change purchase price specified within the convertible note indentures. There can be no assurance that we will have sufficient financial resources, or will be able to arrange financing, to pay the fundamental change purchase price if holders submit their convertible notes for purchase by us upon the occurrence of a fundamental change or to pay the amount of cash (if any) due if holders surrender their convertible notes for conversion. In addition, the occurrence of a fundamental change may cause an event of default under agreements governing our or our subsidiaries' indebtedness. Agreements governing any future debt may also restrict our ability to make any of the required cash payments even if we have sufficient funds to make them. Furthermore, our ability to purchase the convertible notes or to pay cash (if any) due upon the conversion of the convertible notes may be limited by law or regulatory authority. In addition, if we fail to purchase the convertible notes or to pay the amount of cash (if any) due upon conversion of the convertible notes, we will be in default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our other indebtedness, which in turn may result in the acceleration of other indebtedness we may then have. If the repayment of the other indebtedness were to be accelerated, we may not have sufficient funds to repay that indebtedness and to purchase the convertible notes or to pay the amount of cash (if any) due upon conversion.

Noncompliance with established EFT network rules and regulations could expose us to fines and penalties and could negatively impact our results of operations. Additionally, new EFT network rules and regulations could require us to expend significant amounts of capital to remain in compliance with such rules and regulations.

Our transactions are routed over various EFT networks to obtain authorization for cash disbursements and to provide account balances. These networks include Star, Pulse, NYCE, Cirrus (MasterCard), and Plus (Visa) in the U.S.; LINK in the U.K.; Promoción y Operación S.A. de C.V. (“PROSA-RED”) in Mexico; Interac in Canada; and Girocard in Germany. EFT networks set the interchange fees that they charge to the financial institutions, as well as the amounts paid to us. Additionally, EFT networks, including MasterCard and Visa, establish rules and regulations that ATM providers, including ourselves, must comply with in order for member cardholders to use those ATMs. Failure to comply with such rules and regulations could expose us to penalties and/or fines, which could negatively impact our financial results. For example, in the U.K. and Canada, MasterCard and Visa require compliance with the EMV security standard. This standard provides for the security and processing of information contained on microchips imbedded in certain debit and credit cards, known as “smart cards.”

In 2012, MasterCard announced plans for a liability shift from the issuers of these cards to the party that has not made the investment in EMV equipment (acquirer) for fraudulent counterfeit card Maestro cross-border transactions. MasterCard’s liability shift on International Maestro (MasterCard) transactions occurred in April 2013, and while the majority of our U.S. ATMs are not currently EMV-compliant, we do not expect this liability shift to have a significant impact on our business or results as International Maestro transactions currently comprise less than 1% of our U.S. transaction volume. As of the Maestro liability shift date, we have implemented additional fraud monitoring methods to minimize fraud losses. To date, we have seen minimal fraud losses. In February 2013, Visa announced plans for a liability shift to occur in October 2017 for all transactions types on domestic or international EMV-issued cards. MasterCard has also announced that a liability shift for its domestic ATM transactions on EMV-issued cards will occur in October 2016. At this time, neither MasterCard nor Visa are requiring mandatory upgrades to ATM equipment; however, increased fraudulent activity on ATMs in the future or the shifting of liability for fraudulent activity on all ATM transactions without EMV readers, or other business or regulatory factors could cause us to upgrade or replace a significant portion of our existing U.S. ATM fleet. We are closely monitoring the migration toward the EMV standard, and all of our recent ATM deployments have been with ATMs that are EMV-ready. At this time, through a combination of ordinary replacement of equipment, routine scheduled maintenance visits to our ATMs, and evolving technology to meet compliance, we do not expect the EMV migration to have a significant impact on our future capital investments and results from operations. However, we currently estimate that the incremental potential cost to make our entire current Company-owned U.S. ATM fleet fully compliant with the EMV standard is approximately \$30 million to \$35 million, a portion of which has already been planned for within our budget for 2014. With the increased capital investments required as a direct result of EMV, our depreciation expense may increase in the future. Additionally, there is a possibility that we could incur asset write-offs or accelerated depreciation expense on certain ATM units. Additionally, we could experience a higher rate of unit count attrition for our merchant-owned ATMs in the future as a result of this standard.

The majority of the electronic debit networks over which our transactions are conducted require sponsorship by a bank, and the loss of any of our sponsors may cause disruptions to our operations.

In each of the geographic segments in which we operate, bank sponsorship is required in order to process transactions over certain networks. In the U.S., our largest geographic segment by revenues, bank sponsorship is required on the significant majority of our transactions and we primarily rely on one sponsor bank for access to the applicable networks, and, in lesser part, on two other sponsor banks. In our U.K. segment, only international transactions require bank sponsorship. In Mexico, all ATM transactions require bank sponsorship, which is currently provided by our banking partners in the country. In Canada and Germany, bank sponsorships are also required and are obtained through our relationships with third-party processors. If our current sponsor banks decide to no longer provide this service, or are no longer financially capable of providing this service as may be determined by certain networks, it may be difficult to find an adequate replacement at a cost similar to what we incur today, or potentially, we could incur a temporary service disruption for certain transactions in the event we lose or do not retain bank sponsorship, which may negatively impact our profitability.

If we lose key personnel or are unable to attract additional qualified personnel as we grow, our business could be adversely affected.

We are dependent upon the ability and experience of a number of key personnel who have substantial experience with our operations, the rapidly changing automated consumer financial services industry, and the geographical segments in which we operate. It is possible that the loss of the services of one or a combination of several of our senior executives would have an adverse effect on our operations. Our success also depends on our ability to continue to attract, manage, and retain other qualified management, as well as technical and operational personnel as we grow. We may not be able to continue to attract and retain such personnel in the future, which could adversely impact our business.

We are subject to laws and regulations worldwide, changes to which could increase our costs and individually or in the aggregate adversely affect our business.

We currently conduct a portion of our business outside the U.S. Thus, we are subject to a number of laws and regulations which affect our international operations in a number of areas. These foreign laws and regulations affect our business including, but not limited to, areas of labor, advertising, consumer protection, real estate, billing, e-commerce, promotions, quality of services, intellectual property ownership and

infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health, and safety.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation could have a material adverse effect on our business, financial condition and results of operations. We have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies and procedures.

We operate in several jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and other similar anti-corruption laws.

Our business operations in countries outside the U.S. are subject to anti-corruption laws and regulations, including restrictions imposed by the U.S. Foreign Corrupt Practices Act (“FCPA”). The FCPA and similar anti-corruption laws in other jurisdictions, such as the U.K. Bribery Act, generally prohibit companies and their intermediaries from paying or promising to pay government officials, political parties, or political party officials for the purpose of obtaining, retaining, influencing, or directing business. We operate in parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, compliance with anti-corruption laws may conflict with local customs and practices.

Our employees and agents may interact with government officials on our behalf, including interactions necessary to obtain licenses and other regulatory approvals necessary to operate our business, import or export equipment and resolve tax disputes. These interactions create a risk that actions may occur that could violate the FCPA or other similar laws.

Although we have implemented policies and procedures designed to ensure compliance with local laws and regulations as well as U.S. laws and regulations, including the FCPA, there can be no assurance that all of our employees, consultants, contractors and agents will abide by our policies. If we are found to be liable for violations of the FCPA or similar anti-corruption laws in international jurisdictions, either due to our own acts or out of inadvertence, or due to the acts or inadvertence of others, we could suffer from criminal or civil penalties which could have a material and adverse effect on our business, results of operations, financial condition, and cash flows.

Risks associated with our common stock

Our operating results have fluctuated historically and could continue to fluctuate in the future, which could affect our ability to maintain our current market position or expand.

Our operating results have fluctuated in the past and may continue to fluctuate in the future as a result of a variety of factors, many of which are beyond our control, including the following:

- changes in general economic conditions and specific market conditions in the ATM and financial services industries;
- changes in payment trends and offerings in the markets in which we operate;
- competition from other companies providing the same or similar services that we offer;
- the timing and magnitude of operating expenses, capital expenditures, and expenses related to the expansion of sales, marketing, and operations, including as a result of acquisitions, if any;
- the timing and magnitude of any impairment charges that may materialize over time relating to our goodwill, intangible assets or long-lived assets;
- changes in the general level of interest rates in the markets in which we operate;
- changes in regulatory requirements associated with the ATM and financial services industries;
- changes in the mix of our current services;
- changes in the financial condition and credit risk of our customers; and
- changes in the financial condition and operational execution of our key vendors and service providers.

Any of the foregoing factors could have a material adverse effect on our business, results of operations, and financial condition. Although we have experienced revenue growth in recent years, this growth rate is not necessarily indicative of future operating results. A relatively large portion of our expenses are fixed in the short-term, particularly with respect to personnel expenses, depreciation and amortization expenses, and interest expense. Therefore, our results of operations are particularly sensitive to fluctuations in revenues. As such, comparisons to prior periods should not be relied upon as indications of our future performance.



We may issue additional shares of our common stock or instruments convertible into shares of our common stock, which may materially and adversely affect the market price of our common stock and the trading price of our convertible notes.

We may conduct future offerings of our common stock, preferred stock or other securities convertible into our common stock to fund acquisitions, finance operations or for general corporate purposes. In addition, we may also issue common stock under our equity awards programs. The market price of shares of our common stock or the trading price of the convertible notes could decrease significantly if we conduct such future offerings, if any of our existing stockholders sells a substantial amount of our common stock or if the market perceives that such offerings or sales may occur. Moreover, any issuance of additional common stock will dilute the ownership interest of our existing common stockholders, and may adversely affect the ability of holders of the notes to participate in any appreciation of our common stock.

The accounting method for convertible debt securities that may be settled in cash could have a material effect on our reported financial results.

Under U.S. GAAP, an entity must separately account for the debt component and the embedded conversion option of convertible debt instruments that may be settled entirely or partially in cash upon conversion, such as our convertible notes, in a manner that reflects the issuer's economic interest cost. The effect of the accounting treatment for such instruments is that the value of such embedded conversion option is treated as an original issue discount for purposes of accounting for the debt component of the convertible notes, and that original issue discount is amortized into interest expense over the term of the convertible notes using an effective yield method. As a result, we were initially required to record a greater amount of non-cash interest expense as a result of the amortization of the original issue discount to the convertible notes' face amount over the term of the notes and as a result of the amortization of the debt issuance costs. Accordingly, we will report lower net income in our financial results because of the recognition of both the current period's amortization of the debt discount and the convertible notes' coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the convertible notes.

Under certain circumstances, convertible debt instruments that may be settled entirely or partially in cash are evaluated for their impact on earnings per share utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the notes are accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be certain that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share could be adversely affected.

In addition, if the conditional conversion feature of the notes is triggered, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal

of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

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#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

Our principal executive offices are located at 3250 Briarpark Drive, Suite 400, Houston, Texas 77042, and our telephone number is (832) 308-4000. We lease approximately 62,340 square feet of space under our Houston headquarters office leases. In addition, we lease approximately 41,300 square feet of office and warehouse space in north Houston. Furthermore, we lease approximately 26,000 square feet in Frisco, Texas, where we manage our EFT transaction processing operations. We also lease spaces in Whippany, New Jersey; Minnetonka, Minnesota; Portland, Oregon; and Rohnert Park, California, where we manage our merchant-owned businesses. Finally, we lease office space in Bethesda, Maryland, where we manage our Allpoint network operations.

In addition to our domestic office space, we lease office and storage spaces in the foreign countries in which we operate. In the U.K., we lease office spaces in Hatfield, England, for our ATM operations and in Dundee, Scotland, for our i-design operations. Additionally, we lease two Green Team armored operations' cash depot facilities located outside of London and Manchester, England, and warehouse and remote terminal spaces in Rotherham, England. In Mexico, we lease office and warehouse space in Mexico City, Mexico. In Canada, we lease office space in Lethbridge, Alberta and Ottawa, Ontario. In Germany, we lease office space in Trier, Germany.

Our facilities are leased pursuant to operating leases for various terms and we believe they are adequate for our current use. We believe that our leases are at competitive or market rates and do not anticipate any difficulty in leasing suitable additional space upon expiration of our current lease terms.

#### ITEM 3. LEGAL PROCEEDINGS

For a description of our material pending legal and regulatory proceedings and settlements, see Part II, Item 8. Financial Statements and Supplementary Data, Note 17, Commitments and Contingencies – Legal Matters.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The NASDAQ Global Select Market under the symbol "CATM." As of February 14, 2014, there were 85 stockholders of record of our common stock, excluding an indeterminate number of beneficial holders whose shares may be held of record at brokerage and clearing agencies.

Quarterly Stock Prices. The following table reflects the quarterly high and low sales prices for our common stock as reported on The NASDAQ Stock Market LLC:

1	High	Low
2013		
Fourth Quarter	\$ 44.46	\$ 35.46
Third Quarter	38.16	27.36
Second Quarter	30.00	26.29
First Quarter	28.46	23.13
2012		
Fourth Quarter	\$ 30.92	\$ 22.20
Third Quarter	31.46	27.79
Second Quarter	30.25	24.77
First Quarter	28.50	23.70

Dividend Information. We have historically not paid, nor do we anticipate paying, dividends with respect to our common stock. For information on restrictions on our ability to pay dividends, see Item 8. Financial Statements and Supplementary Data, Note 10, Long-Term Debt and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Financing Facilities.

Stock Performance Graph. The following graph compares the five-year total return to holders of Cardtronics Inc.'s common stock, the NASDAQ Composite index (the "Index"), and a customized peer group of 14 companies that includes: (i) ACI Worldwide, Inc. (ACIW), (ii) Acxiom Corporation (ACXM), (iii) CSG Systems International, Inc. (CSGS), (iv) Earthlink Inc. (ELNK), (v) Euronet Worldwide, Inc. (EFT), (vi) Fair Isaac Corp. (FICO), (vii) Global Cash Access Holdings, Inc. (GCA), (viii) Global Payments, Inc. (GPN), (ix) Jack Henry & Associates, Inc. (JKHY), (x) NeuStar, Inc. (NSR), (xi) Outerwall, Inc. (OUTR), (xii) Sapiient Corp. (SAPE), (xiii) SS&C Technologies Holdings, Inc. (SSNC), and (xiv) WEX, Inc. (WEX) (collectively, the "New Peer Group"). We selected the New Peer

Group companies because they are publicly traded companies that: (i) have the same Global Industry Classification Standard classification, (ii) generate a similar amount of revenues, (iii) have similar market values, and (iv) provide services that are similar to the services we provide. The New Peer Group companies were revised during 2013. Our previous peer group included (i) Coinstar, Inc., (ii) Euronet Worldwide, Inc., (iii) Global Cash Access Holdings, Inc., (iv) Heartland Payment Systems Inc., (v) TNS, Inc. and (vi) WEX, Inc. (collectively, the “Old Peer Group”).

The performance graph was prepared based on the following assumptions: (i) \$100 was invested in our common stock, in our New Peer Group, in our Old Peer Group, and the Index on December 31, 2008; (ii) investments in the New Peer Group and the Old Peer Group were weighted based on the returns of each individual company within the group according to their market capitalization at the beginning of the period; and (iii) dividends were reinvested on the relevant payment dates. The stock price performance included in this graph is historical and not necessarily indicative of future stock price performance.

The following graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

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	12/08	12/09	12/10	12/11	12/12	12/13
Cardtronics Inc.	\$ 100.00	\$ 857.36	\$ 1,372.09	\$ 2,097.67	\$ 1,840.31	\$ 3,368.22
NASDAQ Composite	\$ 100.00	\$ 144.88	\$ 170.58	\$ 171.30	\$ 199.99	\$ 283.39
Old Peer Group	\$ 100.00	\$ 172.06	\$ 212.31	\$ 230.94	\$ 300.08	\$ 444.91
New Peer Group	\$ 100.00	\$ 149.68	\$ 171.18	\$ 179.31	\$ 211.28	\$ 317.24

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2013:

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended September 30, 2013:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Approximate Dollar Value that may Yet be Purchased Under the Plan or Program (3)
October 1 – 31, 2013	513	\$ 37.99	—	\$ —
November 1 – 30, 2013	676,370	\$ 41.85	—	\$ —
December 1 – 31, 2013	3,861	\$ 42.89	—	\$ —

(1) Represents shares surrendered to us by participants in our 2007 Stock Incentive Plan to settle the participants' personal tax liabilities that resulted from the lapsing of restrictions on shares awarded to the participants under the 2007 Stock Incentive Plan, except for 665,994 shares in November 2013 that were repurchased on the open market concurrently with the convertible note offering. For additional information on the convertible note offering, see Item 8. Financial Statements and Supplementary Data, Note 10, Long-Term Debt.

(2) The price paid per share was based on the average high and low trading prices of our common stock on the dates on which we repurchased shares from the participants under our 2007 Stock Incentive Plan or in the open market.

(3) In connection with the lapsing of the forfeiture restrictions on restricted shares granted by us under our 2007 Stock Incentive Plan, which was adopted in December 2007 and expires in December 2017, we permitted employees to sell a portion of their shares to us in order to satisfy their tax liabilities that arose as a consequence of the lapsing of the forfeiture restrictions. In future periods, we may not permit individuals to sell their shares to us in order to satisfy such tax liabilities. Since the number of restricted shares that will become unrestricted each year is dependent upon the continued employment of the award recipients, we cannot forecast either the total amount of such securities or the approximate dollar value of those securities that we might purchase in future years as the forfeiture restrictions on such shares lapse.



Unregistered Sales of Equity Securities. There was none that was not previously reported on a current report on Form 8-K.

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## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data derived from our consolidated financial statements. As a result of acquisitions of businesses during the years presented below, our financial results are not comparable in all periods. Additionally, these selected historical results are not necessarily indicative of results to be expected in the future.

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except share and per share information and number of ATMs)				
Consolidated Statements of Operations Data:					
Revenues and Income:					
	\$	\$	\$	\$	\$
Total revenues	876,486	780,449	624,576	532,078	493,353
Income from operations (1)	82,601	90,507	77,275	66,263	43,000
Net income (2)	20,647	43,262	70,146	41,133	5,771
Net income attributable to controlling interests and available to common stockholders (2)	23,816	43,591	70,233	40,959	5,277
Per Share Data:					
Basic net income per common share (2)	\$ 0.52	\$ 0.97	\$ 1.60	\$ 0.98	\$ 0.13
Diluted net income per common share (2)	\$ 0.52	\$ 0.96	\$ 1.58	\$ 0.96	\$ 0.13
Basic weighted average shares outstanding	44,371,313	43,469,175	42,201,491	40,347,194	39,244,057
Diluted weighted average shares outstanding	44,577,635	43,875,332	42,886,780	41,059,381	39,896,366
Consolidated Balance Sheets Data:					
	\$	\$	\$	\$	\$
Total cash and cash equivalents	86,939	13,861	5,576	3,189	10,449
Total assets	1,056,203	768,892	712,801	455,315	460,404
Total long-term debt and capital lease obligations, including current portion (3)	490,514	354,819	370,949	254,833	307,287
Total stockholders' equity (deficit)	247,114	148,804	113,145	44,254	(1,290)

Consolidated Statements of Cash Flows Data:

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	\$	\$	\$	\$	\$
Cash flows from operating activities	183,557	136,388	113,325	105,168	74,874
Cash flows from investing activities	(266,740)	(113,764)	(234,454)	(50,652)	(26,031)
Cash flows from financing activities	154,988	(14,084)	123,532	(62,150)	(42,232)

Operating Data (Unaudited):

Total number of ATMs (at period end):

ATM operations	66,984	56,395	48,105	33,116	32,413
Managed services	13,610	6,365	4,781	3,854	2,631
Total number of ATMs (at period end)	80,594	62,760	52,886	36,970	35,044

Total transactions (excluding managed services)

Total cash withdrawal transactions (excluding managed services)	860,062	704,809	516,564	413,780	380,744
	521,282	443,312	318,615	253,890	241,928

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- (1) The year ended December 31, 2013 includes \$8.7 million in nonrecurring property tax expense related to a change in assessment methodology in the U.K. Additionally, \$15.4 million in acquisition-related costs were included in the results for the year ended December 31, 2013.
  - (2) The year ended December 31, 2013 includes \$13.8 million in income tax expense related to the restructuring of our U.K. business. The years ended December 31, 2011 and 2010 include \$37.0 and \$27.2 million, respectively, in income tax benefits. The income tax benefit in 2011 related to a tax reporting change that was implemented in our U.K. operations, and the benefit in 2010 related to the reversal of previously-established valuation allowances on our domestic deferred tax assets. Additionally, 2010 includes a pre-tax charge of approximately \$14.5 million related to certain charges associated with the refinancing of our outstanding debt obligations.
  - (3) Our long-term debt as of December 31, 2013 consists of outstanding borrowings under our revolving credit facility, our senior subordinated fixed rate notes, and our convertible notes that were issued in November 2013. The convertible notes are shown on our Consolidated Balance Sheet at a carrying value of \$216.6 million as of December 31, 2013, which represents the principal balance of \$287.5 million less the unamortized discount of \$70.9 million.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are based on management's current expectations, estimates, and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements. Known material factors that could cause our actual results to differ from those in the forward-looking statements are those we discuss under Part I, Item 1A. Risk Factors. Additionally, you should read the following discussion together with the financial statements and the related notes included in Item 8. Financial Statements and Supplementary Data.

Our discussion and analysis includes the following topics:

- Strategic Outlook
- Developing Trends in the ATM and Financial Services Industry
- Recent Events
- Components of Revenues, Cost of Revenues, and Expenses
- Results of Operations
- Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates
- New Accounting Pronouncements Issued but Not Yet Adopted
- Commitments and Contingencies

## Strategic Outlook

Over the past several years, we have expanded our operations both domestically and internationally through acquisitions, continued to deploy ATMs in high-traffic locations under contracts with well-known retailers, expanded our relationships with leading financial institutions through growth of our Allpoint surcharge-free ATM network and bank branding programs, and made strategic acquisitions and investments to expand new product offerings and capabilities of our ATMs.

We have completed several acquisitions since 2011, including the acquisitions of: (1) six domestic ATM operators, expanding our fleet in both multi-unit regional retail chains and individual merchant ATM locations in the U.S. by approximately 29,500 ATMs, (2) two Canadian ATM operators for a total of approximately 1,400 ATMs, which allowed us to enter into and expand our international presence in Canada, and (3) Cardpoint in August 2013, which further expanded our U.K. ATM operations by approximately 7,100 ATMs and also allowed us to enter into the German market with approximately 800 ATMs. In addition to ATM acquisitions, we have also made strategic acquisitions including LocatorSearch in August 2011, a domestic leading provider of location search technology deployed by financial institutions to help customers and members find the nearest, most appropriate and convenient ATM location based on the service they seek and i-design group plc (“i-design”) in March 2013, which is a Scotland-based provider and developer of marketing and advertising software and services for ATM operators.

While we will continue to explore potential acquisition opportunities in the future as a way to grow our business, we also expect to continue launching new products and services that will allow us to further leverage our existing ATM and financial services kiosk network. In particular, we see opportunities to expand our operations through the following:

- increase our number of deployed devices with existing as well as new merchant relationships
- expand our relationships with leading financial institutions
- work with non-traditional financial institutions and card issuers to further leverage our extensive ATM and financial services kiosk network
- increase transaction levels at our existing locations
- develop and provide additional services at our existing ATMs
- pursue additional managed services opportunities
- pursue international growth opportunities

For additional discussion of each of our strategic points above, see Part I, Item 1. Business – Our Strategy.

In September of 2013, we announced the formation of the Enterprise Growth Group under the leadership of David Dove, a payments and financial services industry professional with over 30 years of experience. The primary purpose of this new group is to develop and launch new products, enhance the utility of our existing products and services, develop and steer our corporate strategy and evaluate and manage merger and acquisition activity. As an output of the efforts of this group, we expect to continue to grow and diversify our sources of revenues and profits over time.

#### Developing Trends in the ATM and Financial Services Industry

**Increase in Surcharge-Free Offerings.** Many U.S. banks providing banking services are aggressively competing for market share, and part of their competitive strategy is to increase their number of customer touch points, including the establishment of an ATM network to provide convenient, surcharge-free access to cash for their customers. While owning a large ATM network would be a key strategic asset for a bank, we believe it would be uneconomical for all but the largest banks to build and operate an extensive ATM network. Bank branding of ATMs and participation in surcharge-free networks allow financial institutions to rapidly increase surcharge-free ATM access for their customers at substantially lower cost than building their own ATM networks. These factors have led to an increase in bank branding and participation in surcharge-free networks, and we believe that there will be continued growth in such arrangements.

**Increase in Usage of Stored-Value Prepaid Debit Cards.** In the U.S., we have seen a proliferation in the issuance and acceptance of stored-value prepaid debit cards as a means for consumers to access their cash and make routine retail purchases. Based on published studies, the value loaded on stored-value prepaid cards such as open loop network-branded money and financial services cards, payroll cards, social security cards, and unemployment benefit cards, is expected to increase in the next few years.

We believe that our network of ATMs and financial services kiosks, located in well-known retail establishments throughout the U.S., provides a convenient and cost-effective way for holders of such cards to access their cash and potentially conduct other financial services transactions. Furthermore, through our Allpoint network, we partner with financial institutions that issue and sponsor stored-value prepaid debit card programs on behalf of corporate entities and governmental organizations, and we are able to provide holders of such cards convenient, surcharge-free access to their cash. We believe that the number of prepaid cards being issued and in circulation has increased significantly over the last couple of years and represents a significant portion of the year-over-year withdrawal transaction count gains that we have seen in the U.S.

**Growth in Other Automated Consumer Financial Services.** Approximately 75% of all ATM transactions in the U.S. are cash withdrawals, with the remainder representing other basic banking functions such as balance inquiries, transfers, and deposits. We believe that there are opportunities for a large non-bank ATM operator to provide additional financial services to customers, such as check cashing, remote deposit capture, money transfer, bill payment

services, and stored-value card reload services through self-service kiosks. These additional consumer financial services could result in additional revenue streams for us and could ultimately result in increased profitability. However, it would require additional capital expenditures on our part to offer these services more broadly than we currently do.

**Managed Services.** While many banks own significant networks of ATMs that serve as extensions of their branch networks and increase the level of service offered to their customers, large ATM networks are costly to operate and typically do not provide significant revenue for banks and smaller financial institutions. Similarly, there are retailers that own their own network of ATMs for added services to their customers. Operating a network of ATMs is not a core competency for the majority of banks or other financial institutions and for retailers; therefore, we believe there is an opportunity for a large non-bank ATM and financial services kiosk operator such as ourselves, with lower costs and an established operating history, to contract with financial institutions and retailers to manage their ATM networks. Such an outsourcing arrangement could reduce a financial institution's operational costs while extending their customer service. Additionally, we believe there are opportunities to provide selected services on an outsourced basis, such as transaction processing services, to other independent owners and operators of ATMs and financial services kiosks.

**Growth in International Markets.** In most regions of the world, ATMs are less common than in the U.S. We believe the ATM industry will grow faster in certain international markets, as the number of ATMs per capita in those markets increases and begins to approach the levels in the U.S., as we have seen in the U.K. In addition, there has been a trend toward growth of non-branch ATMs in the other international markets we operate in, including Germany, which we entered into during 2013 through the Cardpoint acquisition.

· **United Kingdom.** The U.K. is the largest ATM market in Europe. According to LINK (which connects the ATM networks of all U.K. ATM operators), approximately 67,500 ATMs were deployed in the U.K. as of December 2013, of which approximately 32,800 were operated by non-banks. Similar to the U.S., electronic payment alternatives have gained popularity in the U.K. in recent years. However, cash is still the primary payment method preferred by consumers, representing approximately 60% of spontaneous payments above £1.00 according to the UK Payments Council's UK Consumer Payments 2013 publication. Due to the maturing of the ATM market, we have seen both the number of ATM deployments and withdrawals slow in recent years, and there has been a shift from pay-to-use ATMs to free-to-use ATMs. We significantly expanded in the U.K. during 2013 through the acquisition of Cardpoint, and expect to further expand our operations in this market through new locations with existing merchant customers along with new merchants with whom we may acquire relationships and other growth strategies.

- Germany. We entered the German market in August 2013 through our acquisition of Cardpoint. The German ATM market is highly fragmented and may be under-deployed, based on its population's use of cash relative to other markets in which we operate, such as the U.S. and U.K. There are approximately 55,000 ATMs in Germany that are largely deployed in bank branch locations. This fragmented and potentially under-deployed market dynamic is attractive to us, and as a result, we believe there are a number of opportunities for growth in this market. Girocard, which is the interbank network that connects the ATM network of German ATMs and banks, enabled surcharging in early 2011.
- Mexico. According to the Central Bank of Mexico, as of September 2013 (latest statistics date), Mexico had approximately 40,100 ATMs operating throughout the country, most of which were owned by national and regional banks. Due to a series of governmental and networks regulations over the past few years that have been mostly detrimental to us, along with increased theft attempts on our ATMs in this market, we have slowed our expansion in this market in recent years. However, we continue to pursue opportunities to grow profitably with large retailers and financial institutions in the region on a selective basis.
- Canada. We entered the Canadian market in October 2011 through our acquisition of Mr. Cash, and further expanded our presence in the country through our acquisition of Can-Do-Cash in December 2012. We expect to continue to grow our number of ATM locations in this market and plan to leverage our U.S. operations to support our anticipated growth in this market. We believe that we can leverage our existing relationships with merchant retailers with whom we have significant existing relationships in place in the U.S. to service their Canadian operations, such as our expansion with 7-Eleven Canada during 2012. Furthermore, in 2012, we established a relationship with Scotiabank to provide vault cash in Canada, as well as brand the ATMs in 7-Eleven locations with their logo. As we expand our footprint in Canada, we plan to seek additional partnerships with financial institutions to implement bank branding and other financial services, similar to our bank branding and surcharge-free strategy in the U.S.

**Increases in Surcharge Rates.** As financial institutions in the U.S. increase the surcharge rates charged to non-customers for the use of their ATMs, it enables us to increase the surcharge rates charged on our ATMs in selected markets and with certain merchant customers as well. We also believe that higher surcharge rates in the market make our surcharge-free offerings more attractive to consumers and other financial institutions. In 2009 and 2010, we saw increases in surcharge rates in the industry. Over the last few years, we have seen a slowing of surcharge rate increases and expect to see more modest increases in surcharge rates in the near future.

**Decrease in Interchange Rates.** The interchange rates paid to independent ATM deployers, such as ourselves, are in some cases set by the various EFT networks over which the underlying transactions are routed. Over the last few of years, several networks in our U.S. segment have not only reduced the per transaction interchange paid to ATM deployers for transactions routed through their networks, but also increased the fees they charge ATM deployers to have access to their networks. These access fees are referred to as "acquirer fees." As a result of these actions, we have experienced a decrease in the net interchange rate we receive on transactions performed at our ATMs. During the second quarter of 2012, a major global network reduced the interchange it pays to ATM deployers and also increased the acquirer fees paid by ATM deployers. This network action also prompted some financial institutions to shift their transaction volume to lower interchange rate networks, further reducing our interchange revenues. If additional financial institutions move to take advantage of the lower interchange rate, or if additional networks reduce the interchange rates they currently pay to ATM deployers or increase their network fees, our future revenues and gross



profits would be further negatively impacted. We have taken certain measures to mitigate our exposure to interchange rate reductions by networks, including, but not limited to: (1) where possible, routing transactions through a preferred network such as the Allpoint network, where we have influence over the per transaction rate; (2) negotiating directly with our financial institution partners for contractual interchange rates on transactions involving their customers; and (3) developing contractual protection from such rate changes in our agreements with merchants and financial institution partners.

Interchange rates in the U.K., most of which are set by LINK, the U.K.'s primary ATM debit network, slightly declined as of January 1, 2013; however, LINK has slightly increased the interchange rates for 2014. LINK sets the interchange rates in the U.K. annually by using a cost-based methodology that incorporates interest rates and other ATM service costs from two years back (i.e., interest rates and other costs from 2011 are considered for determining the 2013 interchange rate). In addition to LINK transactions, certain card issuers in the U.K. have issued cards that are not affiliated with the LINK network, and instead carry the Visa or MasterCard network brands. Transactions conducted on our ATMs from these cards, which currently represent less than 2% of our annual withdrawal transactions in the U.K., receive interchange fees that are set by Visa or MasterCard, respectively. The interchange rates set by Visa and MasterCard have historically been less than the rates that have been established by LINK. Accordingly, if any major financial institutions in the U.K. were to decide to leave the LINK network in favor of Visa or MasterCard, such a move could further reduce the interchange revenues that we receive from the related withdrawal transactions conducted on our ATMs in that market.

#### Recent Events

Withdrawal Transaction and Revenue Trends – U. S. For the year ended December 31, 2013, total same-store cash withdrawal transactions conducted on our domestic ATMs increased by 1.1% over the prior year. We define same-store ATMs as all ATMs that were continuously transacting for both the current period and the comparable period in the prior year to ensure the exclusion of any new growth or mid-month installations. We believe that the moderate increase in transactions during the year was attributable to several factors, including: (1) a continued shift in the mix of withdrawal transactions being conducted on our domestic network of ATMs (i.e., more surcharge-free and

less surcharge-based withdrawal transactions) resulting from the continued evolution and growth of our surcharge-free product offerings; and (2) the continued growth in the use of network-branded stored-value cards by employers and governmental agencies for payroll and benefit-related payments. These increases were partially offset by decreased consumer spending, surcharge rate increases, declining transaction rates at merchant-owned ATMs, and unfavorable weather in the first and fourth quarters of 2013 compared to 2012. We expect to continue to see a moderate rate of increase in the number of cash withdrawal transactions being conducted on our domestic ATMs.

Over the last several years, some of the large U.S. banks serving the market for consumer banking services have begun to aggressively compete for market share, and part of their competitive strategy is to increase their number of customer touch points, including the establishment of an ATM network to provide convenient, surcharge-free access to cash for their customers. As a result, in certain situations, we have faced direct competition from large U.S. banks for large ATM placement opportunities. While a large owned-ATM network would be a key strategic asset for a bank, we believe it would be uneconomical for all but the largest banks to build and operate an extensive ATM network. Bank branding of our ATMs and participation in our surcharge-free network allow financial institutions to rapidly increase surcharge-free ATM access for their customers at substantially lower cost than building their own ATM networks. We also believe there is an opportunity for a large non-bank ATM and financial services kiosk operator such as ourselves, with lower costs and an established operating history, to contract with financial institutions and retailers to manage their ATM networks. Such an outsourcing arrangement could reduce a financial institution's operational costs while extending its customer service. Furthermore, we believe there are opportunities to provide selected services on an outsourced basis, such as transaction processing services, to other independent owners and operators of ATMs and financial services kiosks. These factors have led to an increase in bank branding, participation in surcharge-free networks, and managed services arrangements, and we believe that there will be continued growth in such arrangements.

**Withdrawal Transaction and Revenue Trends – U.K.** In recent periods, we have installed more free-to-use ATMs as opposed to surcharging pay-to-use ATMs in the U.K., and as a result of this mix shift, our overall withdrawal transactions in the U.K. (excluding the effect of Cardpoint acquisition) increased by 13% for the year ended December 31, 2013 over the prior year. Although we earn less revenue per cash withdrawal transaction on a free-to-use machine, the increase in the number of transactions conducted on free-to-use machines has generally translated into higher overall revenues.

**Financial Regulatory Reform in the U.S.** The Dodd-Frank Act, which contains broad measures aimed at overhauling financial regulations within the U.S., was signed into law on July 21, 2010. Among many other things, the Dodd-Frank Act includes provisions that (1) have resulted in the creation of a new Bureau of Consumer Financial Protection, (2) limit the activities that banking entities may engage in, and (3) give the Federal Reserve the authority to regulate interchange transaction fees charged by EFT networks for electronic POS debit transactions. ATM debit transactions were determined not to be subject to regulation under the Dodd-Frank Act. As a result of the Dodd-Frank Act, we have seen networks and banks take different actions to attempt to mitigate reductions to fees that they previously earned on certain transaction types, such as POS debit interchange. As potentially an indirect consequence, certain networks over which our ATM transactions are routed have reduced the net interchange paid to us. Other possible impacts of this broad legislation are unknown to us at this time, but we have seen certain actions taken by banks that indicate debit cards are no longer considered as an attractive form of payment as they previously had been. Decreased profitability on POS debit transactions could cause banks to provide incentives to their customers to use other payment types, such as credit cards. We also believe that merchant retailers may continue to have a preference to receive cash as a form of payment. In addition, there are other components to the Dodd-Frank Act that may ultimately

impact us, but at this time, we are uncertain as to what impact the existing and future laws, and the resulting behavior by consumers and financial institutions, will ultimately have on our business.

Americans with Disabilities Act (“ADA”). The ADA requires that ATMs be accessible to and independently usable by individuals with disabilities, such as visually-impaired or wheel-chair bound persons. The U.S. Department of Justice issued accessibility regulations under the ADA that became effective in March 2012. We started preparing for these new regulations several years prior to the effective date by ensuring that the ATMs that we purchased and deployed were compliant with these regulations, and we believe that all of our U.S. ATMs that we own are currently ADA-compliant.

Europay, MasterCard, Visa (“EMV”). The EMV standard provides for the security and processing of information contained on microchips embedded in certain debit and credit cards, known as “smart cards.” This standard has already been adopted in the U.K., Germany, Mexico, and Canada, and our ATMs in those markets are in compliance. In the U.S., MasterCard announced plans for a liability shift from the issuers of these cards to the party that has not made the investment in EMV equipment (acquirer) for fraudulent counterfeit card Maestro cross-border transactions. MasterCard’s liability shift on International Maestro (MasterCard) transactions occurred in April 2013, and while the majority of our U.S. ATMs are not currently EMV-compliant, we do not expect this liability shift to have a significant impact on our business or results as International Maestro transactions currently comprise less than 1% of our U.S. transaction volume. As of the Maestro liability shift date of April 2013, we have implemented additional fraud monitoring methods to minimize fraud losses. To date, we have seen minimal fraud losses. In February 2013, Visa announced plans for a liability shift to occur in October 2017 for all transactions types on domestic or international EMV-issued cards. MasterCard has also announced that liability shift for its domestic ATM transactions on EMV-issued cards will occur in October 2016. At this time, neither MasterCard nor Visa are requiring mandatory upgrades to ATM equipment; however, increased fraudulent activity on ATMs in the future or the shifting of liability for fraudulent activity on all ATM transactions without EMV readers, or other business or regulatory factors could cause us to upgrade or replace a significant portion of our existing U.S. ATM fleet. We are closely monitoring the migration toward the EMV standard, and all of our recent ATM deployments have been with ATMs that are EMV-ready. At this time, through a combination of ordinary replacement of equipment, routine scheduled

maintenance visits to our ATMs, and evolving technology to meet compliance, we do not expect the EMV migration to have a significant impact on our future capital investments and results from operations. However, we currently estimate that the incremental potential cost to make our entire current Company-owned U.S. ATM fleet fully compliant with the EMV standard is approximately \$30 million to \$35 million, a portion of which has already been planned for within our budget for 2014. With the increased capital investments required as a direct result of EMV, our depreciation expense may increase in the future. Additionally, there is a possibility that we could incur asset write-offs or accelerated depreciation expense on certain ATM units. Furthermore, we could experience a higher rate of unit count attrition for our merchant-owned ATMs in the future as a result of this standard.

**Restrictions on EBT Cards.** Recently released regulations at both the federal and state level prohibit the use of a debit cards loaded with government benefit payments (commonly called “EBT cards”) from being used at ATMs established in certain locations, primarily casinos, liquor stores, and adult entertainment venues. Since we have not seen a significant use of EBT cards in such locations, we do not believe these restrictions will have any meaningful impact upon our transactional revenue. However, if the scope and type of locations where EBT cards are prohibited expand, our transaction-based revenue may be adversely affected.

**Financial Regulatory Reform in the U.K. and the European Union.** In March 2013, the U.K. Treasury department (the “Treasury”) issued a formal recommendation to further regulate the U.K. payments industry, including LINK, the nation’s formal ATM scheme. In October 2013, the U.K. government responded by establishing the new Payment Systems Regulator (“PSR”) to oversee any payment system operating in the U.K. and its participants. The ultimate impact of the establishment of the PSR will not be known until it is officially formed.

In July 2013, the European Commission put forward a new draft directive (the “draft Directive”) to regulate payment service providers operating in the European Union (“PSD2”). Broadly, PSD2 seeks to harmonize rules for the licensing of payment institutions and introduces certain common rules affecting all payment service providers (“PSPs”) throughout the European Union. The draft Directive sets out the rights and obligations of payment service users and PSPs together with transparency and security requirements to facilitate safe, efficient payment transactions. Whereas the current Payment Services Directive exempts independent ATM deployers, PSD2 (as currently drafted) will apply to businesses of this nature. The draft Directive is currently still in Committee stage in the European Parliament and has not yet been properly considered by the Council. We anticipate that the draft Directive will not be finalized until 2015 and that it will take up to an additional two years for member states to transpose it into domestic law. In parallel with PSD2, the European Commission has introduced a new Regulation (“MIF Regulation”) aimed at reducing the level of interchange fees charged by card schemes for Point-of-Sale (“POS”) transactions, as well as altering certain of the business rules contained in card scheme rulebooks. The fee caps in the MIF Regulation do not apply to cash withdrawal transactions at ATMs, but certain of the other provisions in the MIF Regulation could apply to ATM operators (although their precise effects are currently uncertain). The Regulation is also currently in Committee stage at the European Parliament and we anticipate that there will be significant amendments to the Commission’s text by the time the Parliament adopts its official position. We anticipate that the MIF Regulation will be finalized in 2015, but in contrast to PSD2, the MIF Regulation will be directly effective in the member states and will not require any further implementing legislation. For additional information on regulatory risks in the U.K., see Item 1A. Risk Factors.

U.K. Property Taxes. In the U.K., there is no requirement for property owners to declare ownership and valuation to taxing authorities for property tax purposes (referred to as “business rates” in the U.K.). Rather, the U.K. government sets the valuations on all the assessable properties that it is aware of and distributes the results to the various local government councils, who then may or may not send property tax bills to property owners at their discretion. Through mid-2013, we had only received tax bills for a portion of the ATMs in the U.K. and these amounts were not significant in the past. In May 2013, we received a notice from the U.K. governmental agency in charge of property taxes stating that it had obtained location and transaction count data for all ATMs in the U.K., and that it was in the process of creating or updating the valuations on many U.K. ATMs across the industry. In 2013, we received listings of proposed valuations for our ATMs, which indicated an annual incremental assessment of approximately £1.8 million (\$2.9 million), net of amounts that may be contractually recovered from merchants and potential reductions resulting from successfully challenging the assessments with the U.K. government and local authorities. Under U.K. law, these taxes may be payable retroactive to April 2010 or to the date of first occupancy, whichever is later. As a result, we believe that it is probable that we will be assessed on significantly more ATMs than in the past, and as a result, during 2013 we recorded an additional expense of \$8.7 million through the Cost of ATM operating revenues line item on our Consolidated Statement of Operations to account for not only current year taxes assessable but also an estimate for taxes assessable relating to previous years. We believe there are several strategies to mitigate these property tax assessments and we plan to aggressively pursue these strategies, to not only reduce the retroactive portion of such assessments, but to also minimize the potential ongoing impact of this change in approach by the U.K. taxing authorities.

Expansion in Germany. As noted above in Developing Trends in the ATM and Financial Services Industry – Growth in International Markets, we entered the German market in August 2013 through our acquisition of Cardpoint. The German ATM market is highly fragmented and may be under-deployed based on its population’s use of cash relative to other markets in which we operate, such as the U.S. and U.K. There are approximately 55,000 ATMs in Germany that are largely deployed in branch locations. This fragmented and potentially under-deployed market dynamic is attractive to us, and as a result, we believe there are a number of opportunities for growth in this market and we plan to pursue many of them.

Mexico Business. In September 2012, we completed a required migration of our U.S. dollar-dispensing ATMs in Mexico so that we could continue to settle our U.S. dollar-denominated transactions through Promoción y Operación S.A. de C.V. (“PROSA-RED”). This process change, combined with the overall recent downward trend in surcharge transactions in Mexico stemming from regulatory changes in 2010,

has resulted in a reduction of the revenues and profits we earn from our ATMs in Mexico. As a result, we have reduced our ATM deployments in Mexico in recent years and we continue to evaluate each ATM's revenue and profit contributions to our Mexico operations. During the fourth quarter of 2013, in response to increased physical ATM theft attempts and lower profitability on certain ATMs in Mexico, we took a number of ATMs out of service for a period of time to enhance some security features. In spite of some of the recent challenges of operating in this market, we believe long-term opportunities remain to operate a profitable operation in this market.

**Convertible Note Offering.** In November 2013, we completed an underwritten private placement of convertible senior notes ("Convertible Notes"), generating gross proceeds of \$287.5 million. The Convertible Notes pay semi-annual interest at a rate of 1.0% per annum on the \$287.5 million aggregate principal balance and mature in December 2020. We are required to settle the principal balance of the Convertible Notes in cash and/or stock upon conversion or maturity at our election.

Simultaneous with the issuance of the Convertible Notes, we entered into hedging transactions designed to offset dilution to our common stock in the event of a conversion under the Convertible Notes. The note hedge instruments ("Note Hedges") have a strike price of \$52.35, which is equal to the conversion rate under the Convertible Notes, are exercisable by us upon any conversion under the Convertible Notes and expire in December 2020. We also sold warrants ("Warrants") in our common stock with a strike price of \$73.29. The net effect of the Note Hedges and Warrants was to raise the effective conversion price of the Convertible Notes to \$73.29.

We used the net offering proceeds from the Convertible Notes and the Warrants to purchase the Note Hedges, to repay outstanding borrowings under our revolving credit facility, and to concurrently repurchase shares of our common stock from the initial purchasers of the Convertible Notes. We intend to use the remainder of the net proceeds from the offering for general corporate purposes, which may include working capital and capital expenditures. See Part II, Item 8. Financial Statements and Supplementary Data, Note 10, Long-Term Debt for a complete discussion of these transactions and their accounting implications.

#### Factors Impacting Comparability Between Periods

- **Foreign Currency Exchange Rates.** Our reported financial results are subject to fluctuations in exchange rates. With relatively minor fluctuations in the average rates between 2011 and 2013, our overall results have not been significantly impacted.
- **Acquisitions.** The results of operations for any acquired entities during a particular year have been included in our consolidated results for that year since the respective dates of acquisition.

#### Components of Revenues, Cost of Revenues, and Expenses

##### Revenues

We derive our revenues primarily from providing ATM and automated consumer financial services and, to a lesser extent, from branding arrangements, surcharge-free network offerings, and sales of ATM equipment. We currently classify revenues into two primary categories: (1) ATM operating revenues and (2) ATM product sales and other revenues.

**ATM Operating Revenues.** We present revenues from ATM and automated consumer financial services, branding arrangements, surcharge-free network offerings and managed services as “ATM operating revenues” in our Consolidated Statements of Operations. These revenues include the fees we earn per transaction on our ATMs, fees we generate from bank branding arrangements and our surcharge-free network offerings, fees we earn on managed services arrangements, and fees earned from providing certain maintenance services. Our revenues from ATM services have increased in recent years due to the acquisitions we have completed, by unit expansion with our customer base, acquisition of new merchant relationships, expansion of our bank branding program, and the growth of our Allpoint network.

ATM operating revenues primarily consist of the four following components: (1) surcharge revenue, (2) interchange revenue, (3) branding and surcharge-free network revenue, and (4) managed services revenue.

· **Surcharge revenue.** A surcharge fee represents a convenience fee paid by the cardholder for making a cash withdrawal from an ATM. Surcharge fees often vary by the type of arrangement under which we place our ATMs and can vary widely based on the location of the ATM and the nature of the contracts negotiated with our merchants. Surcharge fees per surcharge-bearing transaction will vary depending upon the competitive landscape for surcharge fees at newly-deployed ATMs, the roll-out of additional branding arrangements, and future negotiations with existing merchant partners. For those ATMs that we own or operate that participate in surcharge-free networks, we do not receive surcharge fees related to withdrawal transactions from cardholders who are participants of such networks; rather we receive interchange and branding or surcharge-free network revenues, which are further discussed below. For certain ATMs owned and primarily operated by the merchant, we do not receive any portion of the surcharge but rather the entire fee is earned by the merchant. In the U.K., ATM operators must either operate ATMs on a free-to-use (surcharge-free) or on a pay-to-use (surcharging) basis. On free-to-use ATMs in the U.K., we only earn interchange revenue on withdrawal and other transactions, such as balance inquiries, that are paid to us by the customer’s financial institution through the ATM network in the U.K. On pay-to-use ATMs, we only earn a surcharge fee on withdrawal transactions and no interchange is paid to us by the cardholder’s financial institution, except for non-cash withdrawal transactions such as balance inquiries for which interchange is

paid to us by the cardholder's financial institution. In Germany, we collect a surcharge fee on withdrawal transactions but do not receive any interchange revenue. In Mexico, domestic surcharge fees are generally similar to those charged in the U.S., except for machines that dispense U.S. dollars, where we charge an additional foreign currency convenience fee. Finally, in Canada, surcharge fees are comparable to those charged in the U.S. and we also earn an interchange fee that is paid to us by the cardholder's financial institution.

- Interchange revenue. An interchange fee is a fee paid by the cardholder's financial institution for its customer's use of an ATM owned by another operator and for the EFT network charges to transmit data between the ATM and the cardholder's financial institution. We typically receive a majority of the interchange fee paid by the cardholder's financial institution, with the remaining portion being retained by the EFT network. In the U.S., interchange fees are earned not only on cash withdrawal transactions but on any ATM transaction, including balance inquiries, transfers, and surcharge-free transactions. On approximately 57% of our U.S. transactions, the interchange fees that we earn are set by the EFT networks and vary according to EFT network arrangements with financial institutions, as well as the type of transaction. Such fees are typically lower for balance inquiries and fund transfers and higher for withdrawal transactions. On the rest of our U.S. transactions, we have negotiated with the financial institution or network for the per transaction interchange fees that we earn. In the U.K., interchange fees are earned on all ATM transactions other than pay-to-use cash withdrawals. LINK sets the interchange rates for most ATM transactions in the U.K. annually by using a cost-based methodology that, among other costs, factors in the interest rates and cash costs from two years back (i.e., interest rates and other costs from 2012 are considered for determining the 2014 interchange rate). In Germany, there is no interchange mechanism and our primary revenue source is convenience fees paid by ATM users. Currently, we do not receive interchange revenue from domestic transactions in Mexico due to rules promulgated by the Central Bank of Mexico, which became effective in May 2010. These rules require ATM operators to choose between receiving an interchange fee from the consumer's card-issuing bank or a surcharge fee from the consumer. When a surcharge is received by the ATM operator, the rules prohibit a bank from charging its cardholder an additional fee. In Canada, interchange fees are determined by Interac (the interbank network in Canada), and have remained at a constant rate over the past few years.
- Branding and surcharge-free network revenue. Under a bank branding agreement, ATMs that are owned and operated by us are branded with the logo of the branding financial institution. Customers of the branding institution can use those machines without paying a surcharge, and, in exchange for that value, the customer's financial institution typically pays us a monthly per-machine fee for such branding. Historically, this type of branding arrangement has resulted in an increase in transaction levels at the branded ATMs, as existing customers continue to use the ATMs and new customers of the branding financial institution are attracted by the surcharge-free service. Additionally, although we forego the surcharge fee on transactions by the branding institution's customers, we continue to earn interchange fees on those transactions along with the monthly branding fee, and typically enjoy an increase in surcharge-bearing transactions from users who are not customers of the branding institution as a result of having a bank brand on the devices. Based on these factors, we believe a branding arrangement can substantially increase the profitability of an ATM versus operating the same machine without a bank brand. Fees paid for branding vary widely within our industry, as well as within our own operations, depending on the ATM location, financial institutions operating in the area, and other factors. Regardless, we typically set branding fees at levels that more than offset our anticipated lost surcharge revenue.

Under the Allpoint network, financial institutions who are members of the network pay us either a fixed monthly fee per cardholder or a set fee per transaction in exchange for us providing their cardholders with surcharge-free access to most of our ATMs. These fees are meant to compensate us for the loss of surcharge revenues. Although we forego surcharge revenues on those transactions, we do continue to earn interchange revenues. 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 EBT cards. Under these programs, the issuing financial institutions



pay Allpoint either a per transaction fee or a fee per issued stored-value card in return for allowing the users of those cards surcharge-free access to the Allpoint network.

In addition to Allpoint, the ATMs that we operate in 7-Eleven stores, as well as select other merchant locations, participate in the CO-OP network, the nation's largest surcharge-free network devoted exclusively to credit unions.

- **Managed services revenue.** Under a managed service arrangement, we offer ATM-related services depending on the needs of our customers, including monitoring, maintenance, cash management, cash delivery, customer service, transaction processing, and other services. Our customers, which include retailers and financial institutions, may also at times request that we own the ATM fleets. Under a managed services arrangement, all of the transaction-based surcharge and interchange fees are earned by our customer, whereas we typically receive a fixed management fee per ATM or a set fee per transaction for the services we provide. This arrangement allows our customers to have greater flexibility to control the profitability per ATM by managing the surcharge fee levels. Currently, we offer managed services in the U.S., U.K., and Canada, and plan to grow both domestically and internationally in the future.

In addition to the above, we also earn ATM operating revenues from the provision of more sophisticated financial services transactions at certain financial services kiosks that, in addition to standard ATM services, offer bill payment, check cashing, remote deposit capture, and money transfer services.

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The following table presents the components of our total ATM operating revenues for the years indicated:

	2013		2012		2011
Surcharge revenue	46.0	%	47.2	%	48.7
Interchange revenue	32.6		32.5		31.7
Bank branding and surcharge-free network revenues	16.6		16.1		15.6
Other ATM operating revenues, including managed services	4.8		4.2		4.0
Total ATM operating revenues	100.0	%	100.0	%	100.0

ATM Product Sales and Other Revenues. We present revenues from the sale of ATMs and other non-transaction-based revenues as “ATM product sales and other revenues” in our Consolidated Statements of Operations. These revenues consist primarily of sales of ATMs and related equipment to merchants operating under merchant-owned arrangements, as well as sales under our value-added reseller (“VAR”) program with NCR. Under our VAR program, we primarily sell ATMs to associate VARs who in turn resell the ATMs to various financial institutions throughout the U.S. in territories authorized by the equipment manufacturer. We expect to continue to derive a portion of our revenues from sales of ATMs in the future.

### Cost of Revenues

Our cost of revenues primarily consists of those costs directly associated with transactions completed on our network of ATMs and financial services kiosks. These costs include merchant commissions, vault cash rental expense, other cost of cash, repairs and maintenance expense, communications expense, transaction processing fees, and direct operations expense. To a lesser extent, cost of revenues also includes those costs associated with the sales of ATMs. The following is a description of our primary cost of revenues categories:

- **Merchant Commissions.** We pay our merchants a fee for allowing us an exclusive right to place our ATM at their location and that fee amount depends on a variety of factors, including the type of arrangement under which the device is placed, the type of location, and the number of transactions on that device. For the year ended December 31, 2013, merchant commissions represented 31.7% of our ATM operating revenues.
- **Vault Cash Rental Expense.** We pay a fee to our vault cash providers for renting the cash that is maintained in our devices. As the fees we pay under our contracts with our vault cash providers are based on market rates of interest, changes in interest rates affect our cost of cash. In order to limit our exposure to increases in interest rates, we have entered into a number of interest rate swaps on varying amounts of our current and anticipated outstanding cash balances in our domestic operations through 2018. Our interest rate swaps in the U.K. expired as of December 31, 2013. For the year ended December 31, 2013, vault cash rental expense, inclusive of our interest rate swap expense, represented 5.8% of our ATM operating revenues.

- **Other Costs of Cash.** Other costs of cash includes all costs associated with the provision of cash for our devices except for rental expense, including armored courier services, insurance, cash reconciliation, associated wire fees, and other costs. For the year ended December 31, 2013, other costs of cash represented 9.2% of our ATM operating revenues.
- **Repairs and Maintenance.** Depending on the type of arrangement with the merchant, we may be responsible for first and/or second line maintenance for the device. We typically use third parties with national operations to provide these services, except for in the U.K. where we maintain an engineer team to service most of our ATMs in that market and those costs are included in the Other Expenses line described below. For the year ended December 31, 2013, repairs and maintenance expense represented 6.7% of our ATM operating revenues.
- **Communications.** Under our Company-owned arrangements, we are responsible for expenses associated with providing telecommunications capabilities to the devices, allowing them to connect with the applicable EFT network.
- **Transaction Processing.** We maintain our own EFT transaction processing platform, through which the majority of our ATMs are driven and monitored. We also utilize third-party processors to gateway transactions to the EFT networks for authorization by the cardholders' financial institutions and to settle transactions. As a result of acquisitions completed in the last few years, we have inherited transaction processing contracts with certain third-party providers that have varying lengths of remaining contractual terms. Over the next couple of years, we expect to convert the majority of ATMs currently operating under these contracts to our own EFT transaction processing platform.
- **Other Expenses.** Other expenses primarily consist of direct operations expenses, which are costs associated with managing our network, including expenses for monitoring the devices, program managers, technicians, cash ordering and forecasting personnel, and customer service representatives. Additionally, it includes personnel-related costs for maintaining our in-house armored courier operation and maintenance teams in our operations in the U.K.

- Cost of ATM Product Sales. In connection with the sale of equipment to merchants and distributors, we incur costs associated with purchasing equipment from manufacturers, as well as delivery and installation expenses.

We define variable costs as those that vary based on transaction levels. The majority of merchant commissions, vault cash rental expense, and other costs of cash fall under this category. The other categories of cost of revenues are mostly fixed in nature, meaning that any significant decrease in transaction volumes would lead to a decrease in the profitability of our operations, unless there was an offsetting increase in per-transaction revenues or decrease in our fixed costs. Although the majority of our operating costs are variable in nature, an increase in transaction volumes may lead to an increase in the profitability of our operations due to the economies of scale obtained through increased leveraging of our fixed costs and incremental preferential pricing obtained from our vendors. We exclude depreciation, accretion, and amortization of ATMs and ATM-related assets from our cost of ATM revenues.

The profitability of any particular location, and of our entire ATM and financial services kiosk operation, is driven by a combination of surcharge, interchange, branding and surcharge-free network revenues, and managed services revenues, as well as the level of our related costs. Accordingly, material changes in our surcharge or interchange revenues may be offset and in some cases more than offset by branding revenues, surcharge-free network fees, managed services revenues or other ancillary revenues, or by changes in our cost structure.

#### Other Operating Expenses

Our other operating expenses include selling, general and administrative expenses related to salaries, benefits, advertising and marketing, professional services, and overhead. Acquisition-related costs, depreciation and accretion of the ATMs, ATM-related assets, and other assets that we own, amortization of our acquired merchant contracts, and other amortizable intangible assets are also components of our other operating expenses. We depreciate our capital equipment on a straight-line basis over the estimated life of such equipment and amortize the value of acquired intangible assets over the estimated lives of such assets.

## Results of Operations

The following table sets forth line items from our Consolidated Statements of Operations as a percentage of total revenues for the years indicated. Percentages may not add due to rounding.

	2013	2012	2011
Revenues:			
ATM operating revenues	97.5 %	95.3 %	95.6 %
ATM product sales and other revenues	2.5	4.7	4.4
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Cost of ATM operating revenues (excludes depreciation, accretion, and amortization shown separately below) (1)	65.5	64.4	63.5
Cost of ATM product sales and other revenues	2.4	4.3	3.8
Total cost of revenues	67.9	68.7	67.3
Gross profit	32.1	31.3	32.7
Operating expenses:			
Selling, general, and administrative expenses (2)	9.7	8.4	8.9
Acquisition-related expenses (3)	1.8	0.4	0.8
Depreciation and accretion expense	7.8	7.9	7.7
Amortization expense	3.1	2.8	2.9
Loss on disposal of assets	0.3	0.2	0.2
Total operating expenses	22.7	19.7	20.4
Income from operations	9.4	11.6	12.4
Other expense (income):			
Interest expense, net	2.4	2.7	3.2
Amortization of deferred financing costs and note discount	0.2	0.1	0.2
Other income	(0.4)	(0.2)	(0.1)
Total other expense	2.3	2.6	3.3
Income before income taxes	7.1	9.0	9.1
Income tax expense (benefit) (4)	4.8	3.5	(2.1)
Net income	2.4	5.5	11.2
Net loss attributable to noncontrolling interests	(0.4)	—	—
Net income attributable to controlling interests and available to common stockholders	2.7 %	5.6 %	11.2 %

(1)Excludes effects of depreciation, accretion, and amortization expense of \$87.2 million, \$74.7 million and \$59.3 million for the years ended December 31, 2013, 2012, and 2011, respectively. The inclusion of this depreciation, accretion, and amortization expense in Cost of ATM operating revenues would have increased our Cost of ATM operating revenues as a percentage of total revenues by 9.9%, 9.6%, and 9.5% for the years ended December

31, 2013, 2012, and 2011, respectively.

(2)Includes stock-based compensation expense of \$11.4 million, \$10.2 million, and \$8.4 million for the years ended December 31, 2013, 2012, and 2011, respectively. The years ended December 31, 2013 and 2012 includes the effect of \$0.5 million and \$1.0 million, respectively, in severance costs associated with management of our U.K. operations.

(3)Acquisition-related expenses include nonrecurring costs incurred for professional and legal fees and certain transition and integration-related costs, including contract termination costs, related to acquisitions.

(4)The year ended December 31, 2011 includes \$37.0 million in income tax benefits that were realized as a result of a tax reporting change implemented with respect to our U.K. operations. The year ended December 31, 2013 includes \$13.8 in income tax expense associated with restructuring our U.K. operations.

## Key Operating Metrics

We rely on certain key measures to gauge our operating performance, including total transactions, total cash withdrawal transactions, ATM operating revenues per ATM per month, and ATM operating gross profit margin. The following table sets forth information regarding certain of these key measures for the periods indicated, excluding the effect of the acquisitions during the periods presented for comparative purposes.

EXCLUDING ACQUISITIONS:	Years Ended December			
	31, 2013	2012		
Average number of transacting ATMs:				
United States: Company-owned	28,023	26,049		
United Kingdom	4,405	3,999		
Mexico	2,533	2,797		
Canada	1,130	851		
Subtotal	36,091	33,696		
United States: Merchant-owned	15,782	17,773		
Average number of transacting ATMs – ATM operations	51,873	51,469		
United States: Managed services - Turnkey (1)	2,191	2,087		
United States: Managed services - Processing Plus (1)	5,013	3,841		
United Kingdom: Managed services	21	21		
Canada: Managed services	26	25		
Average number of transacting ATMs – Managed services	7,251	5,974		
Total average number of transacting ATMs	59,124	57,443		
Total transactions (in thousands):				
ATM operations	790,893	704,809		
Managed services	49,171	39,856		
Total transactions	840,064	744,665		
Total cash withdrawal transactions (in thousands):				
ATM operations	478,561	443,312		
Managed services	31,612	25,287		
Total cash withdrawal transactions	510,173	468,599		
Per ATM per month amounts (excludes managed services):				
Cash withdrawal transactions	769	718		
ATM operating revenues	\$ 1,237	\$ 1,178		
Cost of ATM operating revenues (2)	824	792		
ATM operating gross profit (2)(3)	\$ 413	\$ 386		
ATM operating gross profit margin (2)(3)	33.4	%	32.8	%

(1) ATMs under “Turnkey” managed services arrangements are those for which we provide broad services similar to our Company-owned ATMs, including transaction processing, monitoring, maintenance, cash management, communications, and customer service. For ATMs under “Processing Plus” managed services arrangements, we typically provide transaction processing, settlement and reporting, and customer service.

(2) Amounts presented exclude the effect of depreciation, accretion, and amortization expense, which is presented separately in our consolidated statements of operations. Additionally, excludes the effect of \$8.7 million of nonrecurring expense related to U.K. property taxes for prior periods in the year ended December 31, 2013.

(3) ATM operating gross profit and ATM operating gross profit margin are measures of profitability that are calculated based on only the revenues and expenses that relate to operating ATMs in our portfolio. Revenues and expenses relating to managed services and ATM equipment sales and other ATM-related services are not included.



The following table sets forth information regarding certain of these key measures for the periods indicated, including the effect of the acquisitions in the periods presented:

INCLUDING ACQUISITIONS:	Years Ended December			
	31, 2013	2012		
Average number of transacting ATMs:				
United States: Company-owned	28,333	26,049		
United Kingdom	7,450	3,999		
Mexico	2,533	2,797		
Canada	1,600	851		
Germany	365	—		
Subtotal	40,281	33,696		
United States: Merchant-owned	21,072	17,773		
Average number of transacting ATMs – ATM operations	61,353	51,469		
United States: Managed services - Turnkey (1)	2,191	2,087		
United States: Managed services - Processing Plus (1)	8,220	3,841		
United Kingdom: Managed services	21	21		
Canada: Managed services	306	25		
Average number of transacting ATMs – Managed services	10,738	5,974		
Total average number of transacting ATMs	72,091	57,443		
Total transactions (in thousands):				
ATM operations	860,062	704,809		
Managed services	60,027	39,856		
Total transactions	920,089	744,665		
Total cash withdrawal transactions (in thousands):				
ATM operations	521,282	443,312		
Managed services	40,223	25,287		
Total cash withdrawal transactions	561,505	468,599		
Per ATM per month amounts (excludes managed services):				
Cash withdrawal transactions	708	718		
ATM operating revenues	\$ 1,127	\$ 1,178		
Cost of ATM operating revenues (2)	744	792		
ATM operating gross profit (2)(3)	\$ 383	\$ 386		
ATM operating gross profit margin (2)(3)	34.0	%	32.8	%

(1) ATMs under “Turnkey” managed services arrangements are those for which we provide broad services similar to our Company-owned ATMs, including transaction processing, monitoring, maintenance, cash management, communications, and customer service. For ATMs under “Processing Plus” managed services arrangements, we typically provide transaction processing, settlement and reporting, and customer service.

(2) Amounts presented exclude the effect of depreciation, accretion, and amortization expense, which is presented separately in our consolidated statements of operations. Additionally, excludes the effect of \$8.7 million of nonrecurring expense related to U.K. property taxes for prior periods in the year ended December 31, 2013.

(3) ATM operating gross profit and ATM operating gross profit margin are measures of profitability that are calculated based on only the revenues and expenses that relate to operating ATMs in our portfolio. Revenues and expenses relating to managed services and ATM equipment sales and other ATM-related services are not included.

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Analysis of Results of Operations

Revenues

	For the Years Ended December 31,				
	2013	% Change	2012	% Change	2011
	(In thousands, excluding percentages)				
ATM operating revenues	\$ 854,196	14.9 %	\$ 743,662	24.5 %	\$ 597,219
ATM product sales and other revenues	22,290	(39.4)%	36,787	34.5 %	27,357
Total revenues	\$ 876,486	12.3 %	\$ 780,449	25.0 %	\$ 624,576

ATM operating revenues. ATM operating revenues generated during 2013 and 2012 increased \$110.5 million and \$146.4 million, respectively, from the prior years. Below is the detail, by segment, of changes in the various components of ATM operating revenues:

	2012 to 2013 Variance				Total
	U.S.	Europe	Other International	Eliminations	
	Increase (decrease)				
	(In thousands)				
Surcharge revenue	\$ 11,987	\$ 30,765	\$ (880)	\$ —	\$ 41,872
Interchange revenue	8,195	25,618	2,841	—	36,654
Bank branding and surcharge-free network revenues	20,520	—	2,311	(55)	22,776
Managed services revenues	4,302	(3)	—	—	4,299
Other revenues	7,685	4,564	(163)	(7,153)	4,933
Total increase in ATM operating revenues	\$ 52,689	\$ 60,944	\$ 4,109	\$ (7,208)	\$ 110,534

	2011 to 2012 Variance				Total
	U.S.	Europe	Other International	Eliminations	

	Increase (decrease)				
	(In thousands)				
Surcharge revenue	\$ 60,730	\$ (3,767)	\$ 3,595	\$ —	\$ 60,558
Interchange revenue	25,880	22,784	3,390	—	52,054
Bank branding and surcharge-free network revenues	22,435	—	3,584	22	26,041
Managed services revenues	5,777	16	—	—	5,793
Other revenues	3,743	—	(103)	(1,643)	1,997
Total increase in ATM operating revenues	\$ 118,565	\$ 19,033	\$ 10,466	\$ (1,621)	\$ 146,443

United States. During the years ended December 31, 2013 and 2012, our U.S. operations experienced an increase in ATM operating revenues when compared to the prior years, driven in part by contributions from acquired businesses which accounted for approximately \$11.8 million and \$73.7 million of the increase for 2013 and 2012, respectively. In both periods, the remaining increase was due to growth achieved from a combination of revenue sources, including: (1) increased surcharge and interchange revenues primarily as a result of a higher machine count and total transaction count; (2) an increase in bank branding and surcharge-free network revenues that resulted from the continued growth of participating banks and other financial institutions in our bank branding program and our Allpoint network; and (3) an increase in managed services revenue as a result of the expansion of these services in the past year. Additionally, in 2012, we experienced an increase in interchange revenue as a result of an increase in withdrawal transactions by 13% (excluding the increase from acquisitions), partially offset by a decline in the per withdrawal interchange rate as there was an interchange rate reduction by a major network that became effective during the second quarter of 2012 and a shift of volume to lower interchange rate networks.

For additional information on recent trends that have impacted, and may continue to impact, the revenues generated by our U.S. operations, see Recent Events - Withdrawal Transaction and Revenue Trends – U.S. above.

Europe. Our Europe segment, which includes both the U.K. and also Germany as a result of the Cardpoint acquisition completed in August 2013, experienced an increase in ATM operating revenues during the years ended December 31, 2013 and 2012 when compared to the prior years. In 2013, \$49.3 million of the increase was attributable to the contribution of the acquisition of Cardpoint (and to a lesser

extent, i-design) completed during the year. The remaining increase was primarily driven by higher interchange revenues as a result of higher transactions primarily as a result of unit growth and higher non-monetary transactions on our ATMs in the U.K. during 2013 over 2012, partially offset by slightly lower interchange rates. In 2012, the increase was also primarily driven by higher interchange revenues as a result of a 46% increase in the number of free-to-use ATMs we operated in that market. This volume increase was partially offset by slightly lower interchange rates and a decline in surcharge revenues. The decrease in surcharge revenues was due to a combination of same-store surcharge transaction decreases on pay-to-use ATMs and fewer ATMs operated under this arrangement type.

For additional information on recent trends that have impacted, and may continue to impact, the revenues generated by our U.K. operations, see Recent Events - Withdrawal Transaction and Revenue Trends – U.K. above.

Other International. ATM operating revenues in this segment, which include the results of Mexico and Canada, also increased in 2013 and 2012 compared to the prior years. Acquisitions completed during the periods contributed to this increase by \$2.5 million and \$2.2 million for 2013 and 2012, respectively. The remaining increase was attributable to our Canadian operations with the addition of a significant new merchant contract in 2012 and the acquisition of Can-Do-Cash in December 2012. Lower ATM operating revenues from our Mexico operations partially offset the increases in both 2013 and 2012 as a result of lower transaction volumes.

ATM product sales and other revenues. ATM product sales and other revenues for the year ended December 31, 2012 was higher than 2013 and 2011 due to higher equipment and value-added reseller (“VAR”) program sales to merchants and distributors during the first half of 2012 as a result of higher demand for new ATMs in response to new regulations under the ADA that became effective during the first quarter of 2012. Under our VAR program, we primarily sell ATMs to associate VARs who in turn resell the ATMs to various financial institutions throughout the U.S. in territories authorized by the equipment manufacturer.

#### Cost of Revenues

	For the Years Ended December 31,				
	2013	% Change	2012	% Change	2011
Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization)	\$ 573,959	14.2 %	\$ 502,682	26.8 %	\$

(In thousands, excluding percentages)