CARDTRONICS INC
Form 10-K
February 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

R	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2011**

or

£	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from ____ to ____** **Commission file number: 001-33864**

CARDTRONICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0681190**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3250 Briarpark Drive, Suite 400 **Houston, TX**	**77042**
(Address of principal executive offices)	*(Zip Code)*

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 R 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 R

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 R 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 R 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. R

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 R	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 R

Aggregate market value of common stock held by non-affiliates as June 30, 2011, the last business day of the registrant's most recently completed second quarter, based on the reported last sale price of common stock on that date: **$993.6 million**

Number of shares outstanding as of February 24, 2012: **44,052,061 shares of Common Stock, par value $0.0001 per share.**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive proxy statement for the 2012 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2011, are incorporated by reference into Part III of this Annual Report on Form 10-K.

CARDTRONICS, INC.

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

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the "2011 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," 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 2011 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, 2011, we were the world's largest retail ATM owner, providing services to approximately 52,900 devices throughout the United States (including the U.S. territories of Puerto Rico and the U.S. Virgin Islands), the United Kingdom, Mexico and Canada. Included within this number are approximately 2,200 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 represents deposits taken using electronic imaging at ATMs not physically located at a bank), and money transfers. Also included in the number of devices in our network as of December 31, 2011 were approximately 4,800 ATMs to which we provided various forms of managed services solutions. 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 their ATMs, typically in exchange for a monthly service fee or fee per service provided.

We often partner with large, nationally-known retail merchants under multi-year agreements to place our ATMs and kiosks within their store locations. In doing so, we provide our retail partners with an automated financial services solution that we believe helps them attract and retain customers, and in turn, increases the likelihood that our devices will be utilized. Finally, we 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 ATMs owned and operated by third parties.

Historically, we have 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 operation, including transaction processing, managing cash, supplies, and telecommunications as well as routine and technical maintenance. Under our 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, 2011, 64% of our devices operated under traditional ATM deployment services were Company-owned and 36% were merchant-owned. During 2011, we added approximately 14,200 ATMs from acquisitions, which increased the percentage of merchant-owned arrangements in our total portfolio from approximately 29% a year ago, as the majority of the ATMs acquired during 2011were merchant-owned. Both the merchant-owned and Company-owned structures are attractive options for us and we plan to grow our revenues under both arrangement types.

In addition to deploying our devices under Company-owned and merchant-owned arrangements, we also offer a managed services solution, under 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, and offer a customized ATM management solution that can include monitoring, maintenance, cash management, customer service, transaction processing and other services.

Finally, we partner with leading national financial institutions to brand selected ATMs and financial services kiosks within our network, including Citibank, N.A., Citizens Financial Group, Inc., JPMorgan Chase Bank, N.A., Sovereign Bank, SunTrust Bank, and PNC Bank, N.A. As of December 31, 2011, over 15,400 of our domestic Company-owned devices were under contract with financial institutions to place their logos on those machines, and to provide convenient surcharge-free access for their banking customers. In Mexico, we partner with Bansí, S.A. Institución de Banca Multiple ("Bansi"), a regional bank in Mexico and a noncontrolling interest owner in Cardtronics Mexico, and Grupo Financiero Banorte, S.A. de C.V. ("Banorte") to place their brands on our ATMs in exchange for certain services provided by them. We also own and operate the Allpoint network, the largest surcharge-free ATM network within the United States (based on the number of participating ATMs). The Allpoint network, which has more than 43,000 participating ATMs, provides surcharge-free ATM access to customers of participating financial institutions that may lack a significant ATM network. The Allpoint network includes a majority of our ATMs in the United States, Puerto Rico and Mexico, all of our ATMs in the United Kingdom, 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 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 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 customers and the applicable EFT network that transmits data between the device and the cardholder's financial institution. We generate additional revenues by branding our devices with the logos of leading national banks and other financial institutions, by providing managed services solutions to retailers and financial institutions, and by collecting fees from financial institutions that participate in our Allpoint surcharge-free network. Under our managed services arrangements, we typically receive a fixed management fee or fixed rate per transaction in return for providing certain services. We do not receive surcharge and interchange fees in these arrangements, but rather those fees are earned by our customer.

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. In addition, 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 to 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 17 ATM networks, a leading location technology business for ATMs, and an operator of a surcharge-free ATM network, increasing the number of ATMs we operate from approximately 4,100 as of May 2001 to approximately 52,900 as of December 31, 2011. Three of these acquisitions enabled us to enter international ATM markets. Specifically, our acquisitions of Bank Machine (Acquisitions) Limited (“Bank Machine”) in May 2005, a majority ownership interest in CCS Mexico (which was subsequently renamed Cardtronics Mexico, S.A. de C.V. (“Cardtronics Mexico”)) in February 2006, and our acquisition of Mr. Cash ATM Network, Inc. (“Mr. Cash”, which was subsequently renamed Cardtronics Canada) in October 2011 expanded our operations into the United Kingdom, Mexico and Canada, respectively. Our acquisition of ATM National (“Allpoint”) in December 2005 provided us with a platform to further pursue and develop surcharge-free offerings. In July 2007, we acquired the financial services business of 7-Eleven, Inc. (the “7-Eleven Financial Services Business”), which included 3,500 traditional ATMs and approximately 2,200 multi-function financial services kiosks, which allowed us to offer additional automated financial services above and beyond those typically offered by traditional ATMs. During 2011, we acquired two ATM networks – EDC ATM Subsidiary, LLC and Efmark Deployment I, Inc. (collectively referred to as "EDC") in July and Access to Money, Inc. ("Access to Money") in November.

From 2001 to 2011, the total number of annual transactions processed within our network increased from approximately 19.9 million to approximately 542.7 million.

Additional Company Information

General information about us can be found at *http://www.cardtronics.com*. We file annual, quarterly, and other reports as well as other information 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 an Internet site 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 2011 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 will endeavor to:

Expand our Network of Devices with Leading Merchants. We believe that we have opportunities to further expand the number of ATMs and financial services kiosks that we own and/or operate with leading merchants. With respect to our existing merchants, we have two principal opportunities to increase the number of deployed devices: first, by deploying devices in existing merchant locations that currently do not have a device, but where consumer traffic volumes and anticipated returns justify installing a device; and second, as our merchants open new locations, by installing devices in those locations. With respect to new merchant customers, we believe our expertise, national footprint, strong record of customer service, and significant scale position us to successfully market to, and enter into long-term contracts with, additional leading national and regional merchants. In addition, we believe our existing relationships with leading U.S.- and U.K.-based retailers position us to expand in international locations where these existing partners have operations.

Expand our Relationships with Leading Financial Institutions. Through our diverse product and service offerings, we believe we are well-positioned to work with our existing financial institution customers 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. For example, our services currently offered to financial institutions include branding our ATMs with their logos and providing surcharge-free access to their customers, and managing their off-premise ATMs (i.e., ATMs not located in a bank branch). Additionally, we can provide other automated consumer financial services for these financial institutions that are not routinely utilized, such as check cashing, remote deposit capture, money transfer, bill payment services, and stored-value card reload services through self-service kiosks. In addition, 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 we believe increases the types of products and services that we are able to offer to financial institutions. In the United Kingdom, our armored courier operation, coupled with our existing in-house ATM maintenance and EFT transaction processing capabilities, provides us with a full suite of services that we can offer to financial institutions in that market.

Continue to Capitalize on Surcharge-Free Network and Stored-Value Card Opportunities. We plan to continue pursuing opportunities with respect to our surcharge-free network offerings, where financial institutions pay us to allow their customers surcharge-free access to our ATM network on a non-exclusive basis. We believe surcharge-free arrangements will enable us to increase transaction counts and profitability on our existing machines. We also plan to pursue additional opportunities to work with financial institutions that issue and sponsor stored-value debit card programs. We believe that these programs represent significant transaction growth opportunities for us, as many users of stored-value debit cards do not have bank accounts, and consequently, have historically not been able to utilize our existing ATMs and financial services kiosks.

Pursue Additional Managed Services Opportunities. During 2011, we expanded the number of ATMs that are operated under our managed services solution. Under this arrangement, retailers and financial institutions generally pay us a fixed management fee and/or a fixed rate per transaction in return for handling some or all of the operational aspects associated with operating and maintaining their ATM fleets. Surcharge and interchange fees are earned by the retailer or the financial institution. As a result, in this arrangement type, our revenues are partly protected from variations in transaction levels of these machines and changes in network interchange rates. We plan to pursue additional opportunities with leading merchants and financial institutions in the United States, as well as international opportunities as they arise, working with our customers to provide them with a customized solution that fits their needs.

Pursue International Growth Opportunities. We have invested significant amounts of capital in the infrastructure of our United Kingdom and Mexico operations, and we plan to continue selectively increasing the number of our ATMs in these markets by increasing the number of machines deployed with our existing customer base as well as adding new merchant customers. In 2011, we entered into the Canadian market with our acquisition of Mr. Cash, subsequently renamed Cardtronics Canada. We plan to expand in Canada, primarily through expanding our ATM footprint in that market and establishing relationships with leading financial institutions. 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. We plan to seek opportunities to expand into other international markets in the future. Our future international expansion will depend on a number of factors, including the estimated economic opportunity to us, the business and regulatory environment in the international market, risks associated with the international expansion, as well as other factors.

Develop and Provide Additional Services at Our Existing Fleet. Service offerings by ATMs continue to evolve over time. Certain ATM models are now capable of providing numerous automated consumer financial services, including bill payments, check cashing, remote deposit capture, and money transfers. 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, will provide us with additional growth opportunities as retailers and financial institutions seek to provide additional convenient self-service financial services to their customers. We also have begun to allow advertisers to place their messages on our ATMs equipped with third-party advertising software in both the United States and the United Kingdom. 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.

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

We typically provide our Company-owned 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, and that our devices are on-line and able to serve customers an average of approximately 99.0% of the time. 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 such 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 service, certain customer support functions, and settlement services. We generally earn surcharge and 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. As of December 31, 2011, we had approximately 6,100 ATMs operating under this arrangement type where we did not record the surcharge fee as our revenues because the merchant earned them.

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 suite of services. We do not receive surcharge and interchange fees in these arrangements, but rather those amounts are earned by the customer.

The following table provides detail relating to the number of devices we owned and operated under our various arrangements as of December 31, 2011:

	ATM Operations			**Managed Services**			
	Company-Owned	**Merchant-Owned**	**Subtotal**	**Company-Owned**	**Merchant-Owned**	**Subtotal**	**Total**
Number of devices at period end	30,643	17,462	48,105	1,316	3,465	4,781	52,886
Percent of subtotal	63.7%	36.3%	100.0%	27.5%	72.5%	100.0%	100.0%

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, 2011, our contracts with our top 10 merchant customers (based on 2011 revenues) had a weighted average remaining life of 4.6 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. We intend to continue pursuing additional bank branding arrangements as part of our growth strategy. As of December 31, 2011, we had bank branding arrangements in place with 53 domestic financial institutions, involving over 15,400 Company-owned ATMs, in addition to majority of our ATMs in Mexico with Bansi and Banorte and in Puerto Rico with Scotiabank. We saw growth in the past few years in bank branding arrangements as a result of our increased sales efforts, our acquisition of EDC in July 2011, and what we believe was the realization by financial institutions of the significant benefits and opportunities afforded to them through bank branding programs.

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 now includes ATMs throughout the United States, United Kingdom, Mexico, Puerto Rico and Australia. We believe Allpoint offers an attractive alternative to financial institutions that lack their own distributed ATM network. Finally, our Company-owned ATMs deployed under our placement agreement with 7-Eleven, Inc. ("7-Eleven"), as well as other select ATM portfolios that were acquired in 2011, participate in the CO-OP® network, the nation's largest surcharge-free network for credit unions.

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 combination of convenience stores and gas stations, grocery stores, drug stores, airports, and other major regional and national retail outlets. The 5,500 locations that we added to our portfolio as a result of the acquisition of the 7-Eleven Financial Services Business in July 2007 (the "7-Eleven ATM Transaction") is a prime example of the types of locations that we seek when deploying our ATMs and financial services kiosks. In addition to our arrangement with 7-Eleven, we have also entered into multi-year agreements with a number of other merchants, including Chevron Corporation ("Chevron"), Costco Wholesale Corporation ("Costco"), CVS Caremark Corporation ("CVS"), Exxon Mobil Corporation ("ExxonMobil"), Hess Corporation ("Hess"), The Kroger Co. ("Kroger"), Safeway, Inc. ("Safeway"), Speedway LLC ("Speedway"), Target Corporation ("Target"), Walgreen Co. ("Walgreens"), and Winn-Dixie Stores, Inc. ("Winn-Dixie") in the United States; ASDA Group Ltd. (a subsidiary of Wal-Mart Stores, Inc.) ("Asda"), Bank of Ireland Group, Euro Garages Ltd., Stuart Harvey Insurance Brokers Ltd. (known under their trading name of "Forces Financial"), Inter IKEA Systems B.V. ("IKEA"), Martin McColl Ltd., Murco Petroleum Ltd., The Noble Organisation Ltd., Tates Ltd., and Welcome Break Holdings Ltd. ("Welcome Break") in the United Kingdom; and Cadena Comercial OXXO S.A. de C.V. ("OXXO") in Mexico. We believe that once consumers establish a pattern of using a particular device, they will generally continue to use that device.

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, Overview of Business, Components of Revenues, Costs of Revenues, and Expenses – Revenues*.

Segment and Geographic Information

As of December 31, 2011, our operations consisted of our United States, United Kingdom, and Other International segments (which currently consists of Mexico and Canada). Our operations in Puerto Rico and the U.S. Virgin Islands are included in our United States segment. 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.

A summary of our revenues from third-party customers by geographic region is as follows:

	Year Ended December 31,					
		2011		**2010**		**2009**
				(In thousands)		
United States	$	501,439	$	423,109	$	401,934
United Kingdom		97,665		82,583		73,096
Other International		25,472		26,386		18,323
Total	$	624,576	$	532,078	$	493,353

The net book value of our long-lived assets, including our intangible assets, in our various geographic locations is as follows:

	Year Ended December 31,					
		2011		**2010**		**2009**
				(In thousands)		
United States	$	484,440	$	313,119	$	317,139
United Kingdom		75,750		67,410		70,368
Other International		14,306		15,293		14,043
Total	$	574,496	$	395,822	$	401,550

For additional discussion of the revenue, profit information, and identifiable 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 involve special risks and may not be successful, which would result in a reduction of our gross and net* *profits.*

Sales and Marketing

Our sales and marketing teams are organized by customer type. We have a team principally focused on developing new relationships with national and regional merchants as well as building and maintaining relationships with our existing merchants. The team is further organized into groups that specialize in marketing to specific merchant industry segments, which allows us to tailor our offering to the specific requirements of each merchant customer. 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, 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, foot traffic, and various demographic data to determine the best opportunities for new ATM and financial services kiosk placements. As of December 31, 2011, our sales and marketing team was composed of approximately 62 employees, of which those who are focused on sales typically receive a combination of incentive-based compensation and a base salary.

Technology

Our technology and operations platform consists of ATMs and financial services kiosks, 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, full-service customer service, and ATM management infrastructure. This platform is designed to provide our customers with what we believe is a high-quality suite of services.

Equipment. In the United States, Canada, and Mexico, 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 evolving to provide additional services in response to changing consumer demand. For example, a portion of our ATM locations can be upgraded to accept deposits through the installation of additional hardware and software components. Additionally, 2,200 of our devices, which are manufactured by NCR and located in selected 7-Eleven store locations, provide enhanced financial services transactions, including bill payments, check cashing, remote deposit capture, and money transfers.

The ATMs we operate in the United Kingdom are principally manufactured by NCR and are categorized into three basic types: (1) "convenience," which are internal to a merchant's premises; (2) "through the wall," which are external-facing from a merchant's premises; and (3) "pods," a free-standing kiosk style ATM, also located external to a merchant's premises.

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 developed internal professional staff to optimize the performance of our network. 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. 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 ATM operation. With the acquisitions of EDC, Access to Money, and Mr. Cash during 2011, we are actively converting the transaction processing of the acquired ATMs to our in-house solution as previous contractual processing relationships expire.

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. Additionally, we utilize isolation techniques in order to separate our sensitive systems from the other systems in our internal network. We also use commercially-available encryption technology to protect information that is stored within our systems, as well as information that is being transmitted. On our internal network, we employ user authentication and antivirus tools 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 gateway connections to our EFT network service providers provide us with real-time access to the various financial institutions' authorization systems that allow withdrawals, balance inquiries, transfers, and advanced functionality transactions. 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.

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 events, and other factors. 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 addition, during 2008, we implemented our own armored courier operation in the United Kingdom, Green Team Services Limited ("Green Team") with a secure cash depot facility located outside of London, England. In 2010, we launched our second cash depot for this operation in Manchester, England. As of December 31, 2011, this operation was servicing approximately 1,790 of our ATMs in the United Kingdom. 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 differentiate 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 vendors for prompt dispatch of necessary service calls.

Finally, we use proprietary software systems in the United States, the United Kingdom, and Mexico 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 database enables 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 management, maintenance, and, in selected cases, 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 from S1 Corporation, 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. These transaction processors include Elan Financial Services (“Elan”), Fidelity Information Services, Inc. (“FIS”) and Fiserv Solutions, Inc. (“Fiserv”) in the United States, LINK in the United Kingdom, Promoción y Operación S.A. de C.V. (“PROSA-RED”) in Mexico, and Interac Corporation (“Interac”) in Canada. As a result of our 2011 acquisitions, approximately 21% of our domestic withdrawal transactions are currently processed through other third-party processors, with whom the acquired businesses had existing contractual relationships. As these contract terms expire, we plan to convert transaction processing services to our EFT processing platform.

EFT Network Services. 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, and Plus in the United States; LINK in the United Kingdom; Interac in Canada; and PROSA-RED in Mexico. 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 United States. Owning our own network further maximizes ATM utility by giving certain cardholders a surcharge-free option at our ATMs, as well as allowing us to receive network-related economic benefits such as receiving switch revenue and setting surcharge-free interchange rates on our own ATMs as well as other participating ATMs.

Equipment. As previously noted, we purchase substantially all of our ATMs from a number of global ATM manufacturers, including NCR, Triton, Diebold, 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 regarding product updates and to receive prompt attention for any technical problems with purchased equipment. During 2011, the favorable pricing we received from these manufacturers also allowed us to offer our merchants and distributors an affordable solution to replace their ATMs and their customers' ATMs to be compliant with the new regulatory requirements of Americans with Disabilities Act ("ADA"), which resulted in higher ATM product sales during the year.

Although we currently purchase a majority of our devices from NCR, we believe our relationships with our other suppliers are good and that we would be able to purchase the machines we require for our Company-owned operations from other manufacturers if we were no longer able to purchase them from NCR.

Maintenance. In the United States, we typically contract with third-party service providers for on-site maintenance services. We have multi-year maintenance agreements with NCR, Pendum, Solvport and Diebold in the United States. In the United Kingdom, maintenance services are provided by our in-house technicians. In Mexico and Canada we outsource the ATM maintenance function to various third party service providers.

Cash Management. We obtain cash to fill our Company-owned devices, and in some cases merchant-owned and managed services ATMs, under arrangements with our cash providers, which are Bank of America, N.A. ("Bank of America"), Elan (which is a business of U.S. Bancorp), Wells Fargo, N.A. ("Wells Fargo") and another vault cash provider in the United States; Alliance & Leicester Commercial Bank ("ALCB", and owned by The Santander Group) in the United Kingdom; and Bansi and Banorte in Mexico. In Canada, the vault cash has typically been provided by an armored courier, but we are currently negotiating with a large bank in this market for future service. We pay a monthly fee on the average amount outstanding to our primary vault cash providers under a formula, which is generally based on the London Interbank Offered Rate ("LIBOR") in the United States and in the United Kingdom, the Mexican Interbank Rate in Mexico, and either the Canadian Prime Rate or the Bankers Acceptance Rate in Canada. At all times, 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 our wholly-owned armored courier operation in the United Kingdom. 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.

As of December 31, 2011, we had approximately $1.7 billion in cash in our domestic ATMs under these arrangements, of which 42.0% was provided by Bank of America under a vault cash agreement that expires in October 2013 and 40.4% was provided by Wells Fargo under a vault cash agreement that expires in July 2013. In the United Kingdom, the balance of cash held in our ATMs was $343.7 million, all of which was supplied by ALCB; in Mexico, our balance totaled approximately $53.7 million; and in Canada it was $0.7 million as of year-end. For additional information on our vault cash agreements, 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.*

Cash Replenishment. We contract with armored courier services to transport and transfer most of the cash to our devices. We use leading armored couriers such as Loomis and Garda in the United States and Sunwin, RMS Integrated Solutions Ltd., and our own armored carrier operation in the United Kingdom. Under these arrangements, the armored couriers pick up the cash in bulk and, using instructions received from 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.

We implemented our own armored courier operation in the United Kingdom during 2008 and expanded that operation in 2010 with the opening of a second depot. This operation, which is currently servicing approximately 1,790 of our ATMs in the United Kingdom, reduces our reliance on third parties and allows us greater flexibility in terms of servicing our ATMs. Additionally, as noted above, 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.

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 United States, our right to terminate or remove devices or renegotiate the fees payable to the merchant if surcharge fees or interchange fees are generally 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 United States, provisions prohibiting in-store check cashing by the merchant and, in the United States and the United Kingdom, the operation of any other cash-back devices;

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- provisions imposing an obligation on the merchant to operate the ATMs at any time its stores are open for business; and

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 or a fixed rate per transaction.

7-Eleven is the largest merchant customer in our portfolio, representing approximately 31% of our total revenues for the year ended December 31, 2011. 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 2011 were CVS, Walgreens, Martin McColl (in the United Kingdom), and Target, none of which individually generated in excess of 8% of our total revenues in 2011.

Seasonality

In the United States, Canada and Mexico, 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 offset somewhat by increases in the number of our devices located in shopping malls and other retail locations that benefit from increased consumer traffic during the summer vacation and holiday buying season. Similarly, we have seen increases in transaction volumes during the second quarter at our devices located near popular spring break destinations. We expect these location-specific and regional fluctuations in transaction volumes to continue in the future.

In the United Kingdom, seasonality in transaction patterns tends to be similar to the seasonal patterns in the general retail market. Generally, the highest transaction volumes occur on weekend days and, thus, monthly transaction volumes will fluctuate based on the number of weekend days in a given month. However, we, like other independent ATM operators, experience a drop in the number of transactions we process during the Christmas season due to consumers' greater tendency to shop in the vicinity of free-to-use ATMs, which are ATMs that do not charge a surcharge to the cardholder, and the routine closure of some of our ATM sites over the Christmas break. We expect these location-specific and regional fluctuations in transaction volumes to continue in the future.

Competition

Historically, we have competed with financial institutions and other independent ATM companies for additional ATM placements, new merchant accounts, and acquisitions. However, we also have established relationships with leading national and regional financial institutions in the United States through our bank branding program and our leading surcharge-free network, Allpoint. Both of these programs can be cost-efficient alternatives to banks and other financial service providers in lieu 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 operators 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. With respect to independent operators of ATMs, our major domestic competitors include Payment Alliance International, Global Cash Access Holdings, and other independent ATM deployers (commonly referred to as “IADs”) and operators.

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 Allpoint, 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 outsource 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 in our offering, 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.

In the United Kingdom, we compete with banks such as the Royal Bank of Scotland, Barclays, and Lloyds for the free-to-use ATMs, while we also compete with several large non-bank ATM operators, including Cashzone (formerly Cardpoint and now a wholly-owned subsidiary of Payzone), Notemachine, and Paypoint for the pay-to-use ATMs. In Mexico, we compete primarily with national and regional financial institutions for multi-unit retail placements, including Banamex, Bancomer, and HSBC, and with small ATM operators for specific merchant locations. In Canada, we compete with ATM providers such as DirectCash Payments Inc. and GabEZEE ATM, as well as large banks for ATM placements.

Government and Industry Regulation

United States

Our principal business, ATM network ownership and operation, is not subject to significant government regulation, though we are subject to certain industry regulations. Additionally, various aspects of our business are subject to state regulation. Our failure to comply with applicable laws and regulations could result in restrictions on our ability to provide our products and services in such states, as well as the imposition of civil fines.

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 has issued accessibility regulations under the ADA that become effective in March 2012. We have been preparing for these new regulations for several years by ensuring that the ATMs that we purchase and deploy are compliant with these then proposed regulations. For that reason, we do not believe that these new guidelines will have an adverse effect on our business regarding Company-owned machines. We have also been working with our merchant-owned ATM customer base to help them to achieve compliance with the ADA. However, as a result of the new requirements under the ADA, we could experience some account attrition in our merchant-owned business, as some merchants may elect to discontinue operating an ATM.

Rehabilitation Act. On November 26, 2006, a U.S. District Court judge ruled that the United States’ currencies (as currently designed) violate the Rehabilitation Act, a law that prohibits discrimination in government programs on the basis of disability, as the paper currencies issued by the United States are identical in size and color, regardless of denomination. As a consequence of this ruling, the United States Treasury conducted a study to determine the options to make United States paper currency accessible to the blind or visually impaired. It is our understanding that the Bureau of Engraving and Printing (“BEP”) received that study on or about July 28, 2009, and together with the United States Treasury and the Federal Reserve, are reviewing the study. Upon the completion of that review, these institutions will publish their recommendations and thereafter seek public comments (in writing and at public forums) on those recommendations. Following the public comment period, a final recommendation will be made to the Secretary of the Treasury, who has authority to change the design and features of the currency notes utilized in the United States. While it is still uncertain at this time what impact, if any, this process will have on the ATM industry (including us), it is possible that any changes made to the design of the paper currency notes utilized in the United States could require us to incur additional costs, which could be substantial, to modify our ATMs in order to store and dispense such notes.

Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which contains broad measures aimed at overhauling existing financial regulations within the United States, was signed into law on July 21, 2010. Among many other things, the Dodd-Frank Act includes provisions that (1) call for the establishment 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 electronic funds transfer networks for electronic debit transactions. Many of the detailed regulations required under the Dodd-Frank Act have still yet to be finalized. 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 point-of-sale debit interchange. As potentially an indirect consequence, we have been notified by certain networks over which our ATM transactions are routed that the net interchange that the network will pay to us will be reduced in future periods. 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 as an attractive form of payment. Decreased profitability on point-of-sale debit transactions could cause banks to provide incentives to their customers to use other payment types, such as cash or credit. However, it is too early to determine what ultimate impact the reduction in point-of-sale debit interchange will have on us. 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 laws and to be written laws and the resulting behavior by consumers and financial institutions will ultimately have on our business. Finally, the newly issued regulations require debit cards to be recognized (or authorized) over at least two non-affiliated networks and provide for rules that would allow merchants greater flexibility in routing transactions across networks that are more economical for the merchant.

Surcharge Regulation. Although there was criticism by certain members of the U.S. Congress of the increase in surcharge fees by several financial institutions that were recipients of federal funding under the Troubled Asset Relief Program ("TARP"), the amount of surcharge an ATM operator may charge a consumer is not currently subject to federal regulation. However, there have been, and continue to be, various state and local efforts to ban or limit surcharge fees on certain types of cash withdrawals, generally resulting from pressure created by consumer advocacy groups that believe that surcharge fees are unfair to certain cardholders. Generally, U.S. federal courts have ruled against these efforts. We are currently not aware of any existing bans on surcharge fees and only a small number of states currently impose a limit as to how much a consumer may be charged. Regardless, there can be no assurance that surcharge fees will not be banned or limited in the future by federal or local governments in the jurisdictions in which we operate. Any such bans or limits could have a material adverse effect on us and other independent ATM operators.

EFT Network Regulations. EFT networks in the United States are subject to extensive regulations that are applicable to various aspects of our operations and the operations of other ATM network operators. The major source of EFT network regulations is the Electronic Fund Transfer Act, commonly known as Regulation E. The federal regulations promulgated under Regulation E establish the basic rights, liabilities, and responsibilities of consumers who use EFT services and of financial institutions that offer these services. The services covered include, among other services, ATM transactions. Generally, Regulation E requires us to provide not only a surcharge notice on the ATM screens, but also on the ATM machines themselves; establishes limits on the consumer's liability for unauthorized use of his card; requires us to provide receipts to the consumer; and establishes protest procedures for the consumer. During 2011, the number of putative class action lawsuits filed in connection with Regulation E disclosures against financial institutions and ATM operators alike appears to have increased dramatically. We have been named several lawsuits in the last couple of years. We believe that we are in material compliance with the requirements of Regulation E. Further, Regulation E provides two defenses: (1) that the fee disclosure notice was on the ATM, but was removed by someone other than the operator (the "safe harbor" defense); or (2) that the fee disclosure notice was unintentionally left off of an ATM despite ATM operator's policies and procedures that provide for the installation of such fee disclosure notices on all of its ATMs (the "bona fide error" defense). We believe these defenses will prevent any of these cases from having a material adverse impact on our business.

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." In the last year, MasterCard announced plans for a liability shift from the issuers of these cards to the party that has not made the investment in EMV cards or equipment (issuer or acquirer) for cross-border transactions. MasterCard's liability shift occurs in April 2013. Visa announced plans for a liability shift to occur in 2015 on point-of-sale ("POS") transactions; however, their announcement specifically excluded ATM transactions. It is possible in the future that Visa will include ATMs in their announced liability shift. 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.

United Kingdom

In the United Kingdom, MasterCard International requires compliance with the EMV standard. We completed our compliance efforts in 2008 and as of December 31, 2011, all of our ATMs in the United Kingdom were EMV compliant.

Additionally, the Treasury Select Committee of the House of Commons heard evidence in 2005 from interested parties with respect to surcharges in the ATM industry. 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 a recommendation that ATMs should be subject to the Banking Code (a voluntary code of practice adopted by all financial institutions in the United Kingdom), the U. K. government did not accept the committee's recommendations. Despite its 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 deployers) were required to be installed in low income areas throughout the United Kingdom. While this was less than a 2% increase in free-to-use ATMs through the United Kingdom, there is no certainty that other similar proposals will not be made and accepted in the future.

Mexico

The ATM industry in Mexico has been historically operated by financial institutions. The Central Bank of Mexico ("Banco de Mexico") supervises and regulates ATM operations of both financial institutions and non-bank ATM deployers. Although Banco de Mexico's regulations permit surcharge fees to be charged on ATM transactions, it has not issued specific regulations for the provision of ATM services. In addition, in order for a non-bank ATM deployer to provide ATM services in Mexico, the deployer must be affiliated with PROSA-RED or E-Global, which are credit card and debit card proprietary networks that transmit information and settle ATM transactions between their participants. As only financial institutions are allowed to be participants of PROSA-RED or E-Global, Cardtronics Mexico entered into a joint venture with Bansi, who is a member of PROSA-RED. As a financial institution, Bansi and all entities with which it participates, including Cardtronics Mexico, are regulated by Secretaria de Hacienda y Crédito Público (the "Ministry of Finance and Public Credit") and supervised by Comisión Nacional Bancaria y de Valores (the "Banking and Securities Commission"). Additionally, Cardtronics Mexico is subject to the provisions of the Ley del Banco de Mexico ("Law of the Bank of Mexico"), the Ley de Instituciones de Crédito ("Mexican Banking Law"), and the Ley para la Transparencia y Ordenamiento de los Servicios Financieros ("Law for the Transparency and Organization of Financial Services").

In May 2010, as supplemented in October 2010, rules promulgated by the Central Bank of Mexico became effective that 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. The rules also prohibit a bank from charging its cardholders a surcharge fee when those cardholders use its ATMs. Cardtronics Mexico elected to assess a surcharge fee rather than selecting the interchange fee-only option, and subsequently increased the amount of its surcharge fees to compensate for the loss of interchange fees that it previously earned on such ATM transactions. Although the total cost to the consumer (including bank fees) of an ATM transaction at a Cardtronics Mexico ATM has stayed approximately the same, average transaction counts, revenues, and profit per machine have declined. As a result of the above developments, we have reduced our ATM deployments in Mexico and are continuing to work on strategies to reverse or offset the negative effects of these events. If we are unsuccessful in such efforts, our overall profitability in that market will decline. If such declines are significant, we may be required to record an impairment charge in future periods to write down the carrying value of certain existing tangible and intangible assets associated with that operation.

In January 2010, the Central Bank of Mexico decided that the ATMs in the country should be compliant with the EMV standard. The date of implementation of the EMV standard varies by the risk grade of the ATMs, with high risk ATMs to be compliant by February 8, 2012; medium risk ATMs by September 1, 2013; and low risk ATMs by September 1, 2014. In Mexico, liability for fraudulent transactions conducted on ATMs without EMV has effectively shifted to the ATM operator as of February 8, 2012. We are in the process of upgrading all of our ATMs in Mexico to be in compliance with the EMV standard.

Canada

In Canada, Interac announced their commitment to adopt the EMV standard in 2006. Since then, ATMs have migrated to the new technology. Deadlines were established by Interac to ensure industry cooperation in the migration, which the final deadline to comply is December 31, 2012. After this date, all noncompliant ATMs will be disconnected from the Shared Cash Dispensing ("SCD") network. As of December 31, 2011, we were substantially in compliance with the EMV standard in our Canadian operations.

Risk management

Management has put in place a formalized Enterprise Risk Management (ERM) program that identifies 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 the management team and the Board of Directors on a regular basis.

Employees

As of December 31, 2011, we had approximately 643 employees, none of which were represented by a union or covered by a collective bargaining agreement. We believe that our relations with our employees are good.

ITEM 1A. RISK FACTORS

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 continued market acceptance of our services in our target markets, (2) maintenance of the level of transaction fees we receive, (3) our ability to install, acquire, operate, and retain more devices, (4) continued 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.

Although we experienced an increase in our monthly ATM operating gross profit per device during 2011, it cannot be assured that our transaction gross profits will not decline in the future. 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.

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

The United States has 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 point-of-sale 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 2011, cash transaction counts declined from approximately 38% of all payment transactions in 2005 to approximately 33% in 2010, 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 $1.4 trillion in 2005 to $1.5 trillion in 2010. Furthermore, in the past few years, we saw an increase in the number of cash withdrawal transactions conducted on our domestic ATMs, in part due to the proliferation of stored-value cards, thus implying a continued demand for cash and convenient, reliable access to that cash. Regardless, 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.

Interchange fees, which comprise a substantial portion of our transaction revenues, may be lowered 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 32% of our total ATM operating revenues for the year ended December 31, 2011, 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, 2011, approximately one third of our total interchange revenues were subject to pricing changes by U.S. networks over which we currently have very limited ability to influence. Approximately one third of our interchange revenues are derived 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. The remainder of reported interchange revenue reflects transaction-based revenues whereby we have contractually agreed to the rate with a financial institution. 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, or both, our future transaction revenues could decline.

During 2010, certain networks reduced the net interchange fees paid to ATM deployers for transactions routed through their networks. For example, effective April 1, 2010, a global network reduced the interchange rates it pays to domestic ATM deployers for ATM transactions routed across its debit network. 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, resulting in additional transaction volume at a lower rate. In mid-October 2011, another global network announced a reduction in interchange paid to ATM deployers and a significant increase in the acquirer fees paid by ATM deployers on withdrawal transactions processed over their network. This new fee structure is planned to go into effect in April 2012. Based on preliminary estimates and projections, our evaluation of the anticipated effect of this new fee structure indicates that prior to any mitigating efforts on our part, our revenues in 2012 will be lower by approximately $7.0 million to $8.0 million and gross profits will be lower by approximately $6.0 million.

Additionally, interchange rates in the United Kingdom, which are set by LINK, the United Kingdom's primary ATM debit network, declined effective as of January 1, 2011. LINK sets the interchange rates in the United Kingdom annually by using a cost-based methodology that incorporates the interest rates and cash costs from the previous year. Since interest rates and cash costs were lower in 2010 than in 2009, LINK reduced the interchange rates effective January 1, 2011; therefore, the interchange revenues generated by certain of our ATMs in the United Kingdom declined in 2011. Further, the interchange rate for transactions routed through LINK in 2012 has been further reduced by 3%, effective January 1, 2012.

Finally, some government officials in the United States 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, 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. Historically, we have been successful in offsetting the effects of any such reductions in interchange fees received by us through changes in our business. However, we can give no assurances that we will be successful in offsetting the effects of any future reductions in the interchange fees received by us, if and when they occur.

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 United States 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 United States 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. To date, no such legislation has been enacted that materially adversely affects our business. However, an amendment proposing limits on the fees that ATM operators, including financial institutions, can charge consumers was introduced in the United States Senate in 2010, but was ultimately not included in the final version of the Dodd-Frank Act that was signed into law. As a part of the Dodd-Frank Act, the Consumer Financial Protection Bureau ("CFPB") was created. The exact areas of oversight of this agency are still being determined, 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 passing of legislation banning or limiting the fees we receive for transactions conducted on our ATMs would severely impact our revenues.*

The Americans with Disabilities Act (“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 become effective in March 2012. While we have taken measures to achieve compliance with the ADA, it is possible that certain of our ATMs may be deemed to be non-compliant and we may be forced to replace and or stop operating such ATMs until such time as compliance has been achieved.

In the United Kingdom, the ATM industry is largely self-regulating. Most ATMs in the United Kingdom 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. Additionally, legislation is proposed from time-to-time at the national level, though to date, nothing has been enacted that materially affects our business.

Finally, the ATM industry in Mexico has been historically operated by financial institutions. Banco de Mexico supervises and regulates ATM operations of both financial institutions and non-bank ATM deployers. Although Banco de Mexico’s regulations permit surcharge fees to be charged in ATM transactions, new rules became effective in May 2010 that required ATM operators to elect between receiving interchange fees from card-issuing banks or surcharge fees from consumers. For further discussion on this topic, see the risk factor below entitled *The passing of legislation banning or limiting the fees we receive for transactions conducted on our ATMs would severely impact our revenues.* In addition, in order for a non-bank ATM deployer to provide ATM services in Mexico, the deployer must be affiliated with PROSA-RED or E-Global, which are credit card and debit card proprietary networks that transmit information and settle ATM transactions between their participants. As only financial institutions are allowed to be participants of PROSA-RED or E-Global, Cardtronics Mexico entered into a joint venture with Bansi, who is a member of PROSA-RED. As a financial institution, Bansi and all entities in which it participates, including Cardtronics Mexico, are regulated by the Ministry of Finance and Public Credit and supervised by the Banking and Securities Commission. Additionally, Cardtronics Mexico is subject to the provisions of the Law of the Bank of Mexico, the Mexican Banking Law, and the Law for the Transparency and Organization of Financial Services. Legislation proposed by any of these regulatory bodies, 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.

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. Recent volatility in the global credit markets in the future, such as that recently 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.

Finally, in response to the recent economic crisis, the Dodd-Frank Act, which contains broad measures that will affect almost all financial institutions within the United States, was signed into law on July 21, 2010. Among many other things, the Act includes provisions that (1) call for the establishment of a new Bureau of Consumer Financial Protection, (2) limit the activities that banking entities may engage in, and (3) give the Federal Reserve Bank the authority to regulate interchange transaction fees charged by electronic funds transfer networks for electronic debit transactions. Many of the detailed regulations required under the Act are still yet to be finalized. It is unclear at this point what impact these new regulations will ultimately have on financial institutions with whom we conduct business. However, if those financial institutions are negatively impacted by such regulations, our future operating results may be similarly impacted.

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 United States, including Puerto Rico, we rely on Bank of America, Wells Fargo, Elan, and another vault cash provider to provide us with the cash that we use in approximately 28,600 of our domestic devices where cash is not provided by the merchant (“vault cash”). In the United Kingdom, we rely on ALCB to provide us with the vault cash that we use in over 3,300 of our ATMs. In Mexico, Bansi and Banorte are our vault cash providers and provide us with the cash that we use in over 2,700 of our ATMs in that market. In Canada, the vault cash has typically been provided by an armored courier, but we are currently negotiating with a large bank in this market for future service. 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. As of December 31, 2011, the balance of vault cash held in our United States, United Kingdom, Mexico, and Canada ATMs and financial services kiosks was approximately $1.7 billion, $343.7 million, $53.7 million, and $0.7 million, respectively.

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 our wholly-owned armored courier operation in the United Kingdom. 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 2012 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 contracted performance penalties.

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, 2011, we derived 50.2% of our total revenues from ATMs and financial services kiosks placed at the locations of our five largest merchant customers. For the year ended December 31, 2011, our top five merchants (based on our total revenues) were 7-Eleven, CVS, Walgreens, Martin McColl (in the United Kingdom), and Target. 7-Eleven, which is the single largest merchant customer in our portfolio, comprised approximately 31% of our total revenues for the year ended December 31, 2011. 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 condition 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 domestic store locations, our revenues would be significantly impacted. Additionally, these merchants may elect not to renew their contracts when they expire. The contracts we have with our top five merchants have a weighted average remaining life of 4.6 years. 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 gross 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 merchant contract affected by such disruption in service.

We rely on EFT network providers and have agreements with transaction processors, armored courier providers, and maintenance providers and have more than one such provider in each of these key areas. These providers enable us to provide card authorization, data capture, settlement, and cash management 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 contract, 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 with the disrupted ATM service could suffer.

While we do 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 may 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 United States, 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 (the "SDNY") appointed a receiver (the "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 such 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 or damage our relationships with such merchants. 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. 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 United Kingdom which was further expanded to two cash depot facilities during 2010. As of December 31, 2011, we were providing armored services to approximately 1,790 (about half) of our ATMs in that market. The armored transport business exposes us to significant risks, including the potential for cash-in-transit losses, as well as claims for personal injury, wrongful death, worker's compensation, punitive damages, and general liability. While we will 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 successful claim brought against us for which 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.

Security breaches could harm our business by compromising 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 sensitive 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. 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. While the security risks outlined above are mitigated by the use of encryption and various layers of security techniques, 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.

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, any inability to prevent computer viruses or malware could damage our relationships with our merchant customers, cause a decrease in transactions by individual cardholders, and cause us to be in non-compliance with applicable network rules and regulations.

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

An operational failure in our EFT transaction processing facilities could harm our business and damage our relationships with our merchant customers. Damage or destruction that interrupts our transaction processing services could damage our relationships with our merchant customers and could 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 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 accurate and authorized maintenance of electronic records. Although we have certain 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 partially based on floating interest rates. As a result, our interest expense and cash management costs are sensitive to changes in interest rates. Vault cash is the cash we use in our machines in cases where cash is not provided by the merchant. 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 or prime rates to Bank of America, Wells Fargo, Elan, and another provider in the United States (including Puerto Rico) and ALCB in the United Kingdom. Additionally, 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”). Although we currently hedge a significant portion of our vault cash interest rate risk related to our operations in the United States through December 31, 2016 and in the United Kingdom through December 31, 2013 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 Mexico. 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. 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.

As of December 31, 2011, there was approximately $2.1 billion in vault cash held in our domestic and international devices. Although legal and equitable title to such cash is held by the cash providers, any loss of such cash from our ATMs through theft or other means is generally our responsibility. We typically require that our cash service providers maintain adequate insurance coverage in the event cash losses occur as a result of theft, misconduct or negligence on the part of such providers. However, we also maintain our own insurance policies to cover a significant portion of any losses that may occur that may ultimately not be covered by the insurance policies maintained by our service providers. In the event we incur losses that are covered by our insurance carriers, we will be required to fund a portion of those losses through the payment of any related deductible amounts under those policies. Furthermore, any increase in the frequency and/or amounts of such thefts and losses could negatively impact our operating results as a result of 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 such merchants and impair our ability to deploy additional ATMs in those locations (or new locations) with those merchants in the future. Finally, impacted merchants may request, and have requested on a limited basis, that we remove ATMs from store locations that have suffered damage as a result of ATM-related thefts, thus negatively impacting our financial results.

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 the United States, the United Kingdom, Mexico, and Canada. 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 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 Allpoint 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 Allpoint is dependent upon the participation by our merchant customers in such networks. In the event a significant number of our merchants elect not to participate in such networks, the benefits and effectiveness of the networks 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 United States 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 people, 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 our United Kingdom operations.

Since May 2001, we have acquired 17 ATM portfolios, a surcharge-free ATM network, and a technology product offering that complements our surcharge-free offering. We have made acquisitions to obtain the assets of deployed ATM networks, as well as the related businesses and their infrastructure. We currently anticipate that our future acquisitions 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 personnel of another ATM provider, 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.

During 2011, we completed four business acquisitions. Any inability on our part to effectively manage the acquisition process could limit our ability to successfully grow the revenue and profitability of our business.

Our 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, 2011, 13.0% of our devices were located in the United Kingdom, Mexico and Canada. Those devices contributed 14.0% of our gross profits (exclusive of depreciation, accretion, and amortization) for the year ended December 31, 2011. We expect to continue to expand in the United Kingdom, Mexico, and Canada, 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 United States 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 United States dollar strengthening relative to the British pound and Mexican peso. Additionally, recent 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 incurred on our existing devices in that market, as well as our ability to successfully grow our business there. See further discussion on this topic in the above risk factor entitled *The passing of legislation banning or limiting the fees we receive for transactions conducted on our ATMs would severely impact our revenues*.

Our possible expansion efforts into new international markets involve unique risks and may not be successful.

We may continue to expand our operations internationally. The regulatory environments in many international markets are evolving and unpredictable, thus increasing the risk that a particular deployment model chosen at inception may not be economically viable in the future.

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.

In recent years, an unprecedented amount of consolidation unfolded within the United States 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 assure you 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, 2011, we had goodwill and other intangible assets of $383.2 million, or 53.7% of our total assets. During the year ended December 31, 2011, we added $159.8 million in goodwill and intangible assets associated with the acquisition of four businesses in the year. We periodically evaluate the recoverability and the amortization period of our intangible assets under accounting principles generally accepted in the United States ("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, 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. Additionally, during the years ended December 2011, 2010 and 2009, we recorded $0.1 million, $0.2 million and $0.4 million, respectively, in net impairment charges associated with intangibles related to our acquired merchant contracts/relationships. 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, 2011, we had outstanding indebtedness of approximately $370.9 million, which represents 76.6% of our total capitalization of $484.1 million. Our substantial indebtedness could have important consequences to you. 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. See *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Financing Facilities.*

The passing 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 United States 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, an amendment proposing limits on the fees that ATM operators, including financial institutions, can charge consumers was introduced in the United States 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 United Kingdom, 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 United Kingdom), the United Kingdom government did not accept the committee’s recommendations. Despite the rejection of the committee’s recommendations, the United Kingdom 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 United Kingdom. While this was less than a 2% increase in free-to-use ATMs throughout the United Kingdom, 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 United Kingdom were to impose limits on the level of surcharges for ATM transactions, our revenue from operations in the United Kingdom 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.

As a result of the above developments, we have reduced our ATM deployments in Mexico in order to better measure the impact of the above rules on our ATM transaction levels and related profits. In 2011, we reached an agreement with Banorte to provide certain services to a segment of our ATMs in Mexico in exchange for branding rights on these ATMs. Based on early analysis, it appears that our new branding relationship with Banorte has helped improve the profitability of our Mexico business. If we are unsuccessful in our efforts to continue to mitigate the effects of the new rules in Mexico, our overall profitability in that market will decline and we may be required to record an impairment charge in future periods to write-down the carrying value of certain existing tangible and intangible assets associated with that operation.

Furthermore, one of our primary merchant contracts in Mexico requires us to install a certain number of ATMs within a specified period of time in order to maintain exclusive rights to deploy ATMs at their retail locations. As a result of the negative effects of the recent regulatory changes to the Cardtronics Mexico business and our decision to reduce our ATM deployments, we could lose our exclusivity rights with this merchant.

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

On November 26, 2006, a U.S. District Court judge ruled that the United States' currencies (as currently designed) violate the Rehabilitation Act, a law that prohibits discrimination in government programs on the basis of disability, as the paper currencies issued by the United States are identical in size and color, regardless of denomination. As a consequence of this ruling, the United States Treasury conducted a study to determine the options to make United States paper currency accessible to the blind or visually impaired. It is our understanding that the BEP received that study on or about July 28, 2009, and together with the United States Treasury and the Federal Reserve, are reviewing the study. Upon the completion of that review, these institutions will publish their recommendations and thereafter seek public comments (in writing and at public forums) on those recommendations. Following the public comment period, a final recommendation will be made to the Secretary of the Treasury, who has authority to change the design and features of the currency notes utilized in the United States. While it is still uncertain at this time what impact, if any, this process will have on the ATM industry (including us), it is possible that any changes made to the design of the paper currency notes utilized in the United States could require us to incur additional costs, which could be substantial, to modify our ATMs in order to store and dispense such notes.

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, and Plus in the United States; LINK in the United Kingdom; PROSA-RED in Mexico; and Interac in Canada. 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 United Kingdom, 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 January 2010, the Central Bank of Mexico decided that the ATMs in the country should be compliant with the EMV standard as well. The date of implementation of the EMV standard varies by the risk grade of the ATMs, with high risk ATMs to be compliant by February 8, 2012; medium risk ATMs by September 1, 2013; and low risk ATMs by September 1, 2014. In Mexico, liability for fraudulent transactions conducted on ATMs without EMV has effectively shifted to the ATM operator as of February 8, 2012. We are in the process of upgrading all of our ATMs in Mexico to be in compliance with the EMV standard. In October of 2011, we were notified by a major global network that certain of our United States dollar-dispensing ATMs (“USD ATMs”) in Mexico were not in compliance with that network’s procedures for settling U.S. dollar-denominated transactions through PROSA-RED. We are working with PROSA-RED to begin offering an acceptable solution to continue operating the USD ATMs with some modifications to our current process. This solution could result in a reduction of the revenues and profits we earn from the USD ATMs in Mexico.

In the last year, MasterCard announced plans that may require ATM transaction acquirers to comply with the EMV standard in the United States in order to process transactions over these networks or potentially face increased liability for fraudulent transaction activity. During 2011, Visa announced plans for a liability shift to occur in 2015 on point-of-sale (“POS”) transactions; however, their announcement specifically excluded ATM transactions. It is possible in the future that Visa will include ATMs in their announced liability shift. 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.

The majority of the electronic debit networks over which our transactions are conducted require sponsorship by a bank.

In each of the geographic segments in which we operate, bank sponsorship is required in order to process transactions over certain networks. In the United States, our largest geographic segment by revenues, bank sponsorship is required on the significant majority of our transactions and we currently rely on one primary sponsor bank for access to the applicable networks. In our United Kingdom 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, bank sponsorship is also required and is 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.

Developments in electronic financial transactions could materially reduce our transaction levels and revenues.

Certain developments in the field of electronic financial transactions may reduce the need for services offered at our devices in the future. These developments could encompass technological changes and advancement in the areas of payments as well as physical self-service financial devices, governmental actions, customer preferences, as well as other factors. If transaction levels over our existing ATM locations were to decrease as a result of one or several of these developments, our business could be adversely affected.

The passing of anti-money laundering legislation could cause us to lose certain merchant accounts and reduce our revenues.

Recent concerns by the U.S. federal government regarding the use of ATMs to launder money could lead to the imposition of additional regulations on our sponsoring financial institutions and our merchant customers regarding the source of cash loaded into their ATMs. In particular, such regulations could result in the incurrence of additional costs by individual merchants who load their own cash, thereby making their ATMs less profitable. Accordingly, some individual merchants may decide to discontinue their ATM operations, thus reducing the number of merchant-owned accounts that we currently manage. If such a reduction were to occur, we would see a corresponding decrease in our revenues.

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 growth in revenues 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.

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.

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 52,500 square feet of space under our Houston headquarters office lease. In addition, we lease approximately 41,300 square feet of office and warehouse space in north Houston. Furthermore, we lease approximately 25,500 square feet in Frisco, Texas, where we manage our EFT transaction processing operations. We also lease various spaces in the state of New Jersey, which is where our Access to Money operations are located. We are in the process of consolidating these spaces into a single New Jersey office located in Whippany, New Jersey. Finally, we lease office space in Bethesda, Maryland, where we manage our Allpoint surcharge-free network operations.

In addition to our domestic office space, we lease office and storage spaces in the countries that we operate in. In the United Kingdom, we lease office space in Hatfield, Hertfordshire, England; two Green Team armored operations' cash depot facilities located outside of London, England and Manchester, England; and warehouse space in Crawley, West Sussex, England. In Mexico, we lease office and warehouse space in Mexico City, Mexico. In Canada, we lease office space in Lethbridge, Canada.

Our facilities are leased pursuant to operating leases for various terms. 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 15, Commitments and Contingencies - Legal Matters.*

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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 Market under the symbol "CATM." As of February 24, 2012, there were 106 shareholders of record of our common stock.

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:

	High	Low
2011		
Fourth Quarter	$ 28.74	$ 19.74
Third Quarter	25.92	19.46
Second Quarter	23.61	18.57
First Quarter	20.50	16.40
2010		
Fourth Quarter	$ 18.79	$ 14.91
Third Quarter	15.47	11.55
Second Quarter	14.58	10.40
First Quarter	13.44	9.51

Dividend Information. We have historically not paid, nor do we anticipate paying, dividends with respect to our common stock. For information on restrictions regarding our ability to pay dividends, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Financing Facilities — Revolving Credit Facility* and *– Senior Subordinated 2018 Notes* and *Item 8. Financial Statements and Supplementary Data, Note 10, Long-Term Debt.*

Stock Performance Graph. The following graph compares the cumulative three-year total return to holders of Cardtronics Inc.'s common stock, the NASDAQ Composite index (the "Index"), and a customized peer group of six companies that includes Coinstar, Inc., Euronet Worldwide, Inc., Global Cash Access Holdings, Inc., Heartland Payment Systems Inc., TNS, Inc. and Wright Express Corp. (collectively, the "Peer Group"). We selected the Peer Group companies because they are publicly traded companies that: (i) are competitors for products and services; (ii) may experience similar market cycles to ours; (iii) may be tracked similarly by analysts; (iv) are in a generally comparable bracket of market capitalization and/or revenue to ours; and (v) compete for the specialized talent of our executives. The performance graph was prepared based on the following assumptions: (i) $100 was invested in our common stock at $9.50 per share (the closing market price at the end of our first trading day), in the Peer Group, and the Index on December 11, 2007 (our first trading day); (ii) investment in the Peer Group was weighted based on the returns of each individual company within the Peer 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.

	12/11/07	12/07	6/08	12/08	6/09	12/09	6/10	12/10	6/11	12/11
Cardtronics Inc.	**100.00**	**106.42**	**93.37**	**13.58**	**40.11**	**116.42**	**136.42**	**186.32**	**246.84**	**284.84**
NASDAQ Composite	**100.00**	**99.60**	**85.97**	**59.30**	**69.06**	**85.99**	**80.33**	**101.26**	**106.23**	**100.09**
Peer Group	**100.00**	**99.16**	**84.38**	**47.75**	**73.56**	**85.43**	**81.22**	**101.16**	**103.93**	**107.95**

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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, 2011:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value that May Yet be Purchased Under the Program [1]
October 1 – 31, 2011	—	—	—	$ —
November 1 – 30, 2011	10,507(2)	26.40(3)	—	$ —
December 1 – 31, 2011	496(2)	27.05(3)	—	$ —

(1) 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 and directors 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.

(2) 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 plan.

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

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data derived from our consolidated financial statements. As a result of our acquisitions of the 7-Eleven Financial Services Business in July 2007 and the acquisition of EDC, LocatorSearch, Mr. Cash, and Access to Money during the second half of 2011, our financial results for the years presented below 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,				
	2011	**2010**	**2009**	**2008**	**2007**
	(In thousands, except share and per share information and number of ATMs)				
Consolidated Statements of Operations Data:					
Revenues and Income:					
Total revenues	$ 624,576	$ 532,078	$ 493,353	$ 493,014	$ 378,298
Income (loss) from operations [1]	77,275	66,263	43,000	(38,118)	7,158
Net income (loss) [1] [2]	70,146	41,133	5,771	(72,397)	(27,857)
Net income (loss) attributable to controlling interests and available to common stockholders [1] [2] [3]	70,233	40,959	5,277	(71,375)	(63,753)
Per Share Data:					
Basic net income (loss) per common share	$ 1.60	$ 0.98	$ 0.13	$ (1.84)	$ (4.13)
Diluted net income (loss) per common share	$ 1.58	$ 0.96	$ 0.13	$ (1.84)	$ (4.13)
Basic weighted average shares outstanding	42,201,491	40,347,194	39,244,057	38,800,782	15,423,744
Diluted weighted average shares outstanding	42,886,780	41,059,381	39,896,366	38,800,782	15,423,744
Consolidated Balance Sheets Data:					
Total cash and cash equivalents	$ 5,576	$ 3,189	$ 10,449	$ 3,424	$ 13,439
Total assets	712,801	455,315	460,404	480,828	590,737
Total long-term debt and capital lease obligations, including current portion	370,949	254,833	307,287	347,181	310,744
Total stockholders' equity (deficit)	113,145	44,254	(1,290)	(19,750)	106,720

Consolidated Statements of Cash Flows Data:					
Cash flows from operating activities	$ 113,325	$ 105,168	$ 74,874	$ 16,218	$ 55,108
Cash flows from investing activities	(234,454)	(50,652)	(26,031)	(60,476)	(202,529)
Cash flows from financing activities	123,532	(62,150)	(42,232)	34,507	158,155
Operating Data (Unaudited):					
Total number of ATMs (at period end):					
ATM operations	48,105	33,116	32,413	32,050	31,515
Managed services	4,781	3,854	2,631	1,705	1,473
Total number of ATMs (at period end)	52,886	36,970	35,044	33,755	32,988
Total transactions (excluding managed services)	516,564	413,780	380,744	351,931	244,862
Total cash withdrawal transactions (excluding managed services)	318,615	253,890	241,928	225,846	163,840

(1) For the year ended December 31, 2008, amounts include a $50.0 million goodwill impairment charge associated with our United Kingdom operations.

(2) For the years ended December 31, 2011 and 2010, amounts 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 United Kingdom 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) For the year ended December 31, 2007, net loss attributable to controlling interests and available to common stockholders reflects a $36.0 million one-time, non-cash charge associated with the conversion of our Series B redeemable convertible preferred stock into shares of common stock in conjunction with our initial public offering in December 2007 and the accretion of issuance costs associated with the Series B redeemable convertible preferred stock.

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:

- Strategic Outlook
- Developing Trends in the ATM and Financial Services Industry
- Recent Events
- Overview of Business
- 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 through acquisitions, built an electronic funds transfer ("EFT") transaction processing platform, launched our armored courier operation in the United Kingdom, continually deployed ATMs in high-traffic locations under our contracts with well-known retailers, expanded our relationships with leading financial institutions, grown our surcharge-free ATM network, Allpoint, and developed new product offerings such as managed ATM services.

During 2011, we completed four separate acquisitions: (1) in July, we acquired all of the outstanding securities of EDC ATM Subsidiary, LLC and Efmark Deployment I, Inc. (collectively referred to as “EDC”) from EDC Holding Company, LLC, which provided us with over 3,600 ATMs that are primarily located in well-known convenience store locations throughout the United States; (2) in August, we completed the acquisition of LocatorSearch, LLC (“LocatorSearch”), a 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; (3) in October, we acquired Mr. Cash ATM Network, Inc. (“Mr. Cash”), a privately-held company with approximately 600 ATMs across Canada, which allowed us to expand our international presence into Canada; and (4) in November, we completed the acquisition of Access to Money, Inc. (“Access to Money”), a leading operator of ATMs, with approximately 10,000 ATMs across the United States, including both multi-unit regional retail chains and individual merchant ATM locations.

We expect to continue to launch new initiatives in the future to further leverage the significant investment that we have made in the development of our extensive ATM and financial services kiosk network, and to continue to integrate the operations of the entities acquired during 2011. In particular, we see opportunities to further expand our operations in 2012 and beyond through the following:

- *Increasing our Number of Deployed Devices with Existing as well as New Merchant Relationships.* We believe that there is a significant opportunity 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 that our size and scale, as well as our proven operational track record, position us well to capitalize on these opportunities as they arise.

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- *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, providing remote deposit capture and providing surcharge-free access to their customers through our Allpoint network. The number of machines and financial institutions participating in our Allpoint network are also increasing, enabling us to increase transaction counts and profitability on our existing machines.

- *Working 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 relationships with non-traditional financial institutions and card issuers that 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 United States 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 enable the customers of such issuers with convenient and surcharge-free access to cash.

- *Increasing 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 working on developing new initiatives to potentially drive incremental transactions over our existing ATM locations. A recent example of this effort is our recent LocatorSearch acquisition, which helps locate convenient access to our ATMs.

- *Pursue Additional Managed Services Opportunities.* Over the last couple of years, we significantly expanded the number of ATMs that are operated under our managed services arrangement type. We plan to pursue additional opportunities with leading merchants and financial institutions in the United States, as well as international opportunities as they arise, working with our customers to provide them with a customized solution that fits their needs.

- *International Expansion.* We currently operate in the United States (including the territories of Puerto Rico and the U.S. Virgin Islands), the United Kingdom, Mexico, and Canada. We believe that there may be further opportunities to expand our business outside the United States.

Longer term, we believe there are opportunities to not only expand our ATM and financial services kiosk network, but to also expand the types of services that we offer through that network. We believe that recent industry regulatory changes coupled with the proliferation of stored-value prepaid debit cards provide us with a unique opportunity to leverage our extensive retail ATM and financial services kiosk network to provide a broader array of automated financial services to financial institutions and card issuers. For example, with recently enacted and pending regulatory changes with respect to credit cards, debit cards, and traditional demand deposit accounts, there is a considerable amount of uncertainty surrounding many of the revenue streams traditionally earned by financial institutions. As a result, we believe that our network of ATMs located in prime retail locations represents an attractive and affordable option for financial institutions looking to continue to expand their ATM network in a cost-effective manner. Additionally, we believe that the deployment of devices that perform other financial services, including check cashing, remote deposit capture, money transfer, bill payment services, and stored-value card reload services, could provide a compelling and cost-effective solution for financial institutions and stored-value prepaid debit card issuers looking to provide the convenience of branch banking in an off-premise retail setting.

Developing Trends in the ATM and Financial Services Industry

Increase in Surcharge-Free Offerings. Many United States 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 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 ATMs and participation in surcharge-free networks allow financial institutions to rapidly increase surcharge-free ATM access for their customers at substantially less 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 United States, 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 double in the next three years. These figures do not include card types less likely or unable to be used at ATMs such as gift cards, consumer incentive cards, and transit cards.

We believe that our network of ATMs and financial services kiosks, located in well-known retail establishments throughout the United States, 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 Allpoint, which partners with financial institutions that issue and sponsor stored-value prepaid debit card programs on behalf of corporate entities and governmental organizations, we are able to provide holders of such cards convenient, surcharge-free access to their cash. While it is difficult to measure the precise number of cash withdrawal transactions occurring from stored-value cards on our network, we believe that such number increased significantly over the last couple of years and represented a significant portion of the year-over-year withdrawal transaction count gains that we saw in the United States.

Growth in Other Automated Consumer Financial Services. Approximately 75% of all ATM transactions in the United States are cash withdrawals, with the remainder representing other basic banking functions such as balance inquiries, transfers, and deposits. We believe that there are significant 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 would result in additional revenue streams for us and could ultimately result in increased profitability. It would require additional capital expenditures on our part to offer these services more broadly.

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 United States. We believe the ATM industry will grow faster in certain international markets than in the United States, as the number of ATMs per capita in those markets increases and begins to approach the levels in the United States. In addition, there has been a trend towards growth of off-premise ATMs in several international markets, including the United Kingdom, Mexico and Canada.

- *United Kingdom.* The United Kingdom is the largest ATM market in Europe. Until the late 1990s, most United Kingdom ATMs were installed at bank and building society branches. Non-bank operators began to deploy ATMs in the United Kingdom in December 1998 when LINK (which connects the ATM networks of all United Kingdom ATM operators) allowed them entry into its network via arrangements between non-bank operators and the United Kingdom financial institutions. We believe that non-bank ATM operators have benefited in recent years from customer demand for more conveniently located cash machines, the emergence of internet banking with no established point of presence, and the closure of bank branches due to consolidation. According to LINK, approximately 65,000 ATMs were deployed in the United Kingdom as of December 2011 (latest statistics date), of which approximately 30,000 were operated by non-banks. The current number of ATMs has grown from approximately 36,700 ATMs in the United Kingdom in 2001, with less than 7,000 operated by non-banks. Similar to the United States, electronic payment alternatives have gained popularity in the United Kingdom in recent years. However, cash is still the primary payment method preferred by consumers, representing approximately 56% of total transaction spending according to the UK Payments Administration Ltd's UK Cash & Cash Machines 2011 publication. We expect to continue to grow in this market through new locations with existing merchant customers along with new merchants with whom we may acquire relationships.

- *Mexico.* Historically, surcharge fees were not allowed pursuant to Mexican law. In July 2005, the Mexican government approved a measure that allowed ATM operators to charge a fee to individuals withdrawing cash from their ATMs. However, effective May, 2010, the Central Bank of Mexico adopted new rules that required ATM operators to elect between receiving interchange fees from card issuers or surcharge fees from consumers. Cardtronics Mexico elected to assess a surcharge fee to the consumer rather than receive an interchange payment from the consumer's financial institution (i.e., the card issuer). According to the Central Bank of Mexico, as of September 2011, Mexico had approximately 35,900 ATMs operating throughout the country, substantially all of which were owned by national and regional banks.

- *Canada.* We entered the Canadian market in October of 2011 through our acquisition of Mr. Cash. We expect to continue to acquire new ATM locations in this market and plan to leverage our United States operations to support our anticipated growth in this market. We believe that we can leverage our existing relationships with merchant retailer with whom we have significant existing relationships in place in the United States to service their Canadian operations. In addition, we plan to seek to partner with financial institutions in this market to implement bank branding and other financial services, similar to our bank branding and surcharge-free strategy in the United States.

Increases in Surcharge Rates. As financial institutions in the United States increase the surcharge rate 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 the higher surcharge rates make our surcharge-free offerings more attractive to consumers and other financial institutions. In 2009 and 2010, we saw significant increases in surcharge rates in the industry. During 2011, we saw 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 couple of years, several networks 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. In mid-October 2011, another major global network announced a reduction in interchange paid to ATM deployers and an increase in the acquirer fees paid by ATM deployers. The new fee structure takes effect in April 2012. We expect that this rate decrease will result in approximately $7 to 8 million in lower revenues than we otherwise would have earned. 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: 1) where possible, routing transactions through a preferred network such as Allpoint, 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; 3) developing contractual protection from such rate changes in our agreements with merchants and financial institution partners; and 4) other measures.

Additionally, interchange rates in the United Kingdom, which are set by LINK, the United Kingdom's primary ATM debit network, declined effective as of January 1, 2011 and also further declined effective January 1, 2012. LINK sets the interchange rates in the United Kingdom 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 2010 are considered for determining the 2012 interchange rate). As a result, the interchange revenues per transaction generated by certain of our ATMs in that market declined in 2011 and are expected to decline slightly more in 2012.

Recent Events

Withdrawal Transaction and Revenue Trends – United States. For year ended December 31, 2011, total same-store cash withdrawal transactions conducted on our domestic ATMs increased by 3.8% over the prior year. We define same-store ATMs as all ATMs that were continuously transacting for the trailing 24-month period to ensure the exclusion of any new growth or mid-month installations.

The increase in transactions was primarily attributable to two factors: (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 proliferation in the use of network-branded stored-value cards by employers and governmental agencies for payroll and benefit-related payments. With respect to the latter, the increase in the number of stored-value cards in circulation has served to increase our potential customer base, as these stored-value cards are capable of being used at ATMs, and many of the individuals to whom the cards have been issued are traditionally unbanked or under-banked and have not historically been able to utilize ATMs. We expect to continue to see an increase in the number of stored-value cards in the future, which we believe will result in an increase in the number of cash withdrawal transactions being conducted on our domestic ATMs.

In addition, many United States banks serving the market for consumer 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 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 ATMs and participation in surcharge-free networks allow financial institutions to rapidly increase surcharge-free ATM access for their customers at substantially less 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 their 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.

Financial Regulatory Reform in the United States. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which contains broad measures aimed at overhauling existing financial regulations within the United States, was signed into law on July 21, 2010. Among many other things, the Dodd-Frank Act includes provisions that (1) call for the establishment 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 electronic funds transfer networks for electronic debit transactions. Many of the detailed regulations required under the Dodd-Frank Act have still yet to be finalized. 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 point-of-sale debit interchange. As potentially an indirect consequence, we have been notified by certain networks over which our ATM transactions are routed that the net interchange that the network will pay to us will be reduced in future periods. 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 as an attractive form of payment. Decreased profitability on point-of-sale debit transactions could cause banks to provide incentives to their customers to use other payment types, such as cash or credit. However, it is too early to determine what ultimate impact the reduction in point-of-sale debit interchange will have on us. 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 laws and to be written laws and the resulting behavior by consumers and financial institutions will ultimately have on our business. Finally, the newly issued regulations require debit cards to be recognized (or authorized) over at least two non-affiliated networks and provide for rules that would allow merchants greater flexibility in routing transactions across networks that are more economical for the merchant.

Withdrawal Transaction and Revenue Trends – United Kingdom. For the year ended December 31, 2011, withdrawal transactions per ATM in the United Kingdom increased by 33% over the prior year. We continued to see a shift in the mix of ATMs in the United Kingdom from fewer pay-to-use ATMs and more surcharge-free, or "free-to-use" ATMs. As a result, we have installed more free-to-use machines in this market in recent periods. Specifically, the average number of free-to-use machines we had in the United Kingdom during 2011 increased by approximately 63% compared to 2010, whereas the number of pay-to-use machines decreased by approximately 13%. 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. However, excluding the impact of the LINK interchange rate decrease discussed above, the interchange revenues generated by some of our ATMs in that market would have been higher by approximately $7.4 million in 2011.

Recent Events – Mexico. In May 2010, as supplemented in October 2010, rules promulgated by the Central Bank of Mexico became effective that 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. The rules also prohibit a bank from charging its cardholders a surcharge fee when those cardholders use its ATMs.

Our majority-owned subsidiary, Cardtronics Mexico, elected to assess a surcharge fee-only rather than selecting the interchange fee-only option, and subsequently increased the amount of our surcharge fees to compensate for the loss of interchange fees that we previously earned on such ATM transactions. Although the total cost to the consumer (including bank fees) of an ATM transaction at a Cardtronics Mexico ATM has stayed approximately the same, average transaction counts, revenues, and profit per machine have declined. As a result of the above developments, we are working on strategies to mitigate the negative effects of these events, such as the bank branding agreement that was executed during the first quarter of 2011 with Grupo Financiero Banorte S.A. de C.V. ("Banorte"), to brand up to 2,000 machines in that market. As a result of this agreement, we have experienced improved profitability on the machines covered by the agreement. If we are unsuccessful in our efforts to continue to mitigate the negative effects of the new regulations, our overall profitability in that market will decline. If such declines are significant, we may be required to record an impairment charge in future periods to write down the carrying value of certain existing tangible and intangible assets associated with that operation.

In October of 2011, we were notified by a major global network that certain of our United States dollar-dispensing ATMs ("USD ATMs") in Mexico were not in compliance with that network's procedures for settling U.S. dollar-denominated transactions through Promoción y Operación S.A. de C.V. ("PROSA-RED"). We are working with PROSA-RED to begin offering an acceptable solution to continue operating the USD ATMs, with some modifications to our current process. This solution could result in a reduction of the revenues and profits we earn from the USD ATMs in Mexico.

Factors Impacting Comparability

Foreign Currency Exchange Rates. Our reported financial results are subject to fluctuations in exchange rates. Due to minor fluctuations in the average rates between 2009 and 2011, our overall results were not significantly positively or negatively impacted.

Acquisitions. Our results for the year ended December 31, 2011 includes the effect of the acquisitions that were completed during the year, which includes EDC in July 2011, LocatorSearch in August 2011, Mr. Cash in October 2011, and Access to Money in November 2011. The results of operations for the acquired entities have been included in our consolidated results for the year ended December 31, 2011 since the respective dates of acquisition.

Overview of Business

As of December 31, 2011, we operated a network of approximately 52,900 ATMs and financial services kiosks throughout the United States (including the U.S. territories of Puerto Rico and the U.S. Virgin Islands), the United Kingdom, Mexico, and Canada. Our extensive network is strengthened by multi-year contractual relationships with a wide variety of nationally and internationally-known merchants pursuant to which we operate ATMs and financial services kiosks in their locations. We offer ATM services, in which we deploy our devices under two distinct arrangements with our merchant partners: Company-owned and merchant-owned arrangements, as well as offer various forms of managed services solutions.

Company-owned Arrangements. Under a Company-owned arrangement, we own or lease the device and are responsible for controlling substantially all aspects of its operation. These responsibilities include what we refer to as first line maintenance, such as replacing paper, clearing paper or bill jams, resetting the device, resolving any telecommunications and power issues, or performing other maintenance activities that do not require a trained service technician. We are also responsible for what we refer to as second line maintenance, which includes more complex maintenance procedures that require trained service technicians and often involve replacing component parts. In addition to first and second line maintenance, we are responsible for arranging for cash, cash loading, supplies, transaction processing, telecommunications service, and all other services required for the operation of the device, other than electricity. We typically pay a fee, either periodically, on a per-transaction basis or a combination of both, to the merchant on whose premises the device is physically located. We operate a limited number of our Company-owned devices on a merchant-assisted basis. In these arrangements, we own the device and provide all transaction processing services, but the merchant generally is responsible for providing and loading cash and performing first line maintenance.

Typically, we deploy our devices under Company-owned arrangements for our national and regional merchant customers. Our customers include 7-Eleven, Chevron, Costco, CVS, ExxonMobil, Hess, Rite Aid, Safeway, Speedway, Target, Walgreens, and Winn-Dixie in the United States; Asda, Euro Garages Ltd., Forces Financial, IKEA, Martin McColl Ltd., Murco Petroleum Ltd., Tates Ltd., and Welcome Break in the United Kingdom; and OXXO in Mexico. Because Company-owned locations are controlled by us (i.e., we control the on-line availability of the machines) and are usually located in major national chains, they are more likely candidates for additional sources of revenue such as bank branding. In addition, they generally offer higher transaction volumes and greater profitability, which we consider necessary to justify the upfront capital cost of installing such machines. As of December 31, 2011, we operated approximately 30,600 devices under Company-owned arrangements.

Merchant-owned Arrangements. Under a merchant-owned arrangement, a merchant owns the device and is generally responsible for its first-line maintenance and the majority of the operating costs; however, we generally continue to provide all transaction processing services, second-line maintenance, 24-hour per day monitoring and customer service, and, in some cases, retain responsibility for providing and loading cash. We typically enter into merchant-owned arrangements with smaller, independent merchant customers, but we now also have large retail merchant customers as a result of our acquisitions in 2011. In situations where a merchant purchases a device from us, the merchant normally retains responsibility for providing cash for the device. Because the merchant bears more of the operating costs under this arrangement, the merchant typically receives a higher fee on a per-transaction basis than is the case under a Company-owned arrangement. In merchant-owned arrangements under which we have assumed responsibility for providing and loading cash and/or second line maintenance, the merchant receives a smaller fee on a per-transaction basis than in the typical merchant-owned arrangement. As of December 31, 2011, we operated approximately 17,500 devices under merchant-owned arrangements.

In the future, we expect the percentage of our Company-owned and merchant-owned arrangements to continue to fluctuate in response to the mix of devices we add through internal growth and acquisitions.

Managed Services. Over the last few years, we expanded the type of products we offer by providing various forms of managed services solutions. 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, as well as at times owning, their ATM fleets. Under these types of arrangements, we typically receive a fixed management fee or fixed fee per transaction in return for providing certain services, including monitoring, maintenance, cash management, customer service, and transaction processing. We do not receive surcharge and interchange fees in these arrangements, but rather those amounts are earned by our customer. Our domestic customers include Carnival Corporation, The Kroger Co., and Travelex Currency Services Inc. We also offer these services in the United Kingdom, and plan to grow internationally, as well as domestically, in the future. As of December 31, 2011, we provided managed services solutions to approximately 4,800 ATMs.

Electronic Funds Transfer (“EFT”) Transaction Processing. As of December 31, 2011, substantially all of our fleet operated on our EFT transaction processing platform except for certain acquired ATMs during 2011. Our EFT transaction processing capabilities provide us with the ability to control the processing of transactions conducted on our network and allow us to control the content of the information appearing on the screens of our devices, which increases the types of products and services that we are able to offer to financial institutions. For example, with the ability to control screen flow, we are able to offer customized branding solutions to financial institutions, including one-to-one marketing and advertising services at the point of transaction. Additionally, the transition of our devices to our own EFT transaction processing platform has provided us with operational cost savings in terms of lower overall processing costs.

As our EFT transaction processing efforts are focused on controlling the flow and content of information on the device screens, we typically rely on third-party service providers to handle the generic back-end connections to the EFT networks and limited funds settlement and reconciliation processes for our Company-owned accounts.

Armored Courier Services in the United Kingdom. We operate our own armored courier operation in the United Kingdom, Green Team Services Limited (“Green Team”), with two secure cash depot facilities located outside of London, England and Manchester, England. As of December 31, 2011, this operation was servicing roughly 1,790 of our ATMs in the United Kingdom. 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.

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: ATM operating revenues and 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 rapidly in recent years due to the acquisitions we have completed, by unit growth expansion with our customer base, acquisition of new merchant relationships 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. In the future, we expect that 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 United Kingdom, ATM operators must either operate ATMs on free-to-use (surcharge-free) or on a pay-to-use (surcharging) basis. On free-to-use ATMs in the United Kingdom, we only earn interchange revenue on withdrawal transactions that is paid to us by the customer’s financial institution through the ATM network in the United Kingdom. On pay-to-use ATMs, we only earn surcharge fee and no interchange is paid to us by the cardholder’s financial institution. These surcharge fees are typically somewhat higher in the United Kingdom compared to surcharge fees in the United States. In Mexico, domestic surcharge fees are generally similar to those charged in the United States, 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 United States as well.

- *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 United States, 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 half of our United States 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 other half of our U.S. transactions, we have negotiated with the financial institution for the per transaction interchange fees that we earn. In the United Kingdom, interchange fees are earned on all ATM transactions other than pay-to-use cash withdrawals. LINK, the United Kingdom’s primary ATM debit network, sets the interchange rates in the United Kingdom annually by using a cost-based methodology that incorporates the interest rates and cash costs from the previous year. 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 Interac, and have remained at a fairly steady 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 electronic benefits transfer ("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 Allpoint's participating 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, customer service, and transaction processing. 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 or fixed rate 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 United States, and recently began offering these services in the United Kingdom, and plan to grow internationally, as well as domestically, in the future.

In addition to the above, we also earn ATM operating revenues from the provision of more sophisticated financial services transactions at approximately 2,200 financial services kiosks that, in addition to standard ATM services, offer bill payment, check cashing, remote deposit capture, and money transfer services.

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

	2011	2010	2009
Surcharge revenue	48.7%	51.2%	52.9%
Interchange revenue	31.7	30.3	30.7
Bank branding and surcharge-free network revenues	15.6	15.6	14.0
Other ATM operating revenues, including managed services	4.0	2.9	2.4
Total ATM operating revenues	100.0%	100.0%	100.0%

Growth in our interchange revenues as a percentage of our total revenues from 2010 to 2011 is principally being driven by a higher percentage of our United Kingdom operation operating under a free-to-use (interchange only) model, partially offset by lower interchange rates earned on withdrawal transactions in the United Kingdom and the United States. Growth in our other ATM operating revenues is principally driven by an increase in the number of locations operating under a managed service arrangement.

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 United States 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, and in the near term expect to continue to benefit from new requirements under the Americans with Disabilities Act (“ADA”), which calls for ATMs to be accessible to persons with disabilities. As a result of this regulation, ATM owners are required to operate ADA-compliant equipment by March 2012.

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 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, 2011, merchant commissions represented 31.2% 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 2016 and in our United Kingdom operations through 2013. For the year ended December 31, 2011, vault cash rental expense, inclusive of our interest rate swap expense, represented 6.8% 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, 2011, 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. Our primary maintenance vendors are Diebold, NCR, and Pendum. For the year ended December 31, 2011, repairs and maintenance expense represented 6.9% 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 from these terminal-driving platforms. We continue to pay fees to 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 during 2011, 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 migrate ATMs currently operating under these contracts to our own EFT transaction processing platform.

- *Other Expenses.* Other expenses primarily consists 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 United Kingdom.

- *Cost of ATM Product Sales.* In connection with the sale of equipment to merchants and VAR, 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, transaction processing, and other costs of cash fall under this category. The other categories of cost of revenues are generally 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 our statement of operations information as a percentage of total revenues for the years indicated. Percentages may not add due to rounding.

	Years Ended December 31,		
	2011	**2010**	**2009**
Revenues:			
ATM operating revenues	95.6%	98.3%	97.9%
ATM product sales and other revenues	4.4	1.7	2.1
Total revenues	100.0	100.0	100.0
Cost of revenues:			
Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization, shown separately below) (1)	63.5	66.1	67.7
Cost of ATM product sales and other revenues	3.8	1.7	2.1
Total cost of revenues	67.3	67.7	69.8
Gross profit	32.7	32.3	30.2
Operating expenses:			
Selling, general, and administrative expenses (2)	8.9	8.4	8.4
Acquisition-related expenses	0.8	—	—
Depreciation and accretion expense	7.7	8.0	8.0
Amortization expense (3)	2.9	2.9	3.8
Loss on disposal of assets	0.2	0.5	1.2
Total operating expenses	20.4	19.8	21.5
Income from operations	12.4	12.5	8.7
Other expense (income):			
Interest expense, net	3.2	5.0	6.1
Amortization of deferred financing costs and bond discounts	0.2	0.4	0.5
Write-off of deferred financing costs and bond discounts	—	1.4	—
Redemption costs for early extinguishment of debt	—	1.4	—
Other (income) expense	(0.1)	(0.2)	0.1
Total other expense	3.3	7.9	6.7
Income before income taxes	9.1	4.5	2.0
Income tax (benefit) expense (4)	(2.1)	(3.2)	0.9
Net income	11.2	7.7	1.2
Net income attributable to noncontrolling interests	0.0	0.0	0.1
Net income attributable to controlling interests and available to common stockholders	11.2%	7.7%	1.1%

(1) Excludes effects of depreciation, accretion, and amortization expense of $59.3 million, $51.0 million, and $51.5 million, for the years ended December 31, 2011, 2010, and 2009, 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 9.5%, 9.6%, and 10.4% for the years ended December 31, 2011, 2010, and 2009, respectively.

(2) Year ended December 31, 2011 includes $8.4 million in stock-based compensation expense, compared to $5.3 million and $3.8 million in the years ended December 31, 2010 and 2009, respectively. Year ended December 31, 2010 includes $1.0 million of costs associated with the preparation and filing of a shelf registration statement and the completion of two secondary equity offerings, and $0.7 million in severance costs associated with a management reorganization. Year ended December 31, 2009 includes the effect of $1.2 million in severance costs associated with the departure of our former Chief Executive Officer in March 2009.

(3) Includes pre-tax impairment charges of $0.1 million, $0.2 million, and $1.2 million for the years ended December 31, 2011, 2010, and 2009, respectively.

(4) Year ended December 31, 2011 includes $37.0 million in income tax benefits that was realized as a result of a tax reporting change implemented in our U.K. operations. Year ended December 31, 2010 includes $27.2 million in income tax benefits related to the reversal of previously-established valuation allowances on our domestic deferred tax assets.

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 years indicated, excluding the effect of acquisitions completed in 2011 for EDC, Access to Money, and Mr. Cash.

EXCLUDING 2011 ACQUISTIONS:

	2011	2010	2009
Average number of transacting ATMs:			
United States: Company-owned	19,318	18,272	18,190
United Kingdom	3,255	2,832	2,606
Mexico	2,897	2,867	2,197
Canada	—	—	—
Subtotal	25,470	23,971	22,993
United States: Merchant-owned	8,086	8,626	9,124
Average number of transacting ATMs – ATM operations	33,556	32,597	32,117
United States: Managed services [(1)]	4,319	3,241	2,450
United Kingdom: Managed services	18	—	—
Average number of transacting ATMs – Managed services	4,337	3,241	2,450
Total average number of transacting ATMs	37,893	35,838	34,567
Total transactions *(in thousands)*:			
ATM operations	491,041	413,780	380,744
Managed services	26,107	17,580	11,621
Total transactions	517,148	431,360	392,365
Total cash withdrawal transactions *(in thousands)*:			
ATM operations	300,799	253,890	241,928
Managed services	17,241	13,020	9,938
Total cash withdrawal transactions	318,040	266,910	251,866
Per ATM per month amounts (excludes managed services):			
Cash withdrawal transactions	747	649	628
ATM operating revenues	$ 1,374	$ 1,327	$ 1,249
Cost of ATM operating revenues [(2)]	902	891	864

ATM operating gross profit [2] [3]	$ 472	$ 436	$ 385
ATM operating gross profit margin (exclusive of depreciation, accretion, and amortization)	34.4%	32.9%	30.8%

(1) The number of ATMs for the year ended December 31, 2011 and 2010 includes 2,523 and 2,535 ATMs, respectively, for which we only provided EFT transaction processing services. We provided various other services to the remainder of the ATMs included in this number, including a combination of monitoring, maintenance, cash management, customer service, and other services depending on the needs of our customers. During the year ended December 31, 2009, we only provided EFT transaction processing services to the ATMs represented in this category.

(2) Excludes effects of depreciation, accretion, and amortization expense of $59.3 million, $51.0 million and $51.5 million for the years ended December 31, 2011, 2010 and 2009, 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 per ATM per month and decreased our ATM operating gross profit per ATM per month by $147, $130 and $134 for the years ended December 31, 2011, 2010 and 2009, respectively.

(3) ATM operating gross profit is a measure of profitability that uses only the revenues and expenses that relate to operating the 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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The following table sets forth information regarding certain of these key measures for the years indicated, including the effect of acquisitions completed in 2011 for EDC, Access to Money, and Mr. Cash.

INCLUDING 2011 ACQUISTIONS:

	2011	2010	2009
Average number of transacting ATMs:			
United States: Company-owned	21,125	18,272	18,190
United Kingdom	3,255	2,832	2,606
Mexico	2,897	2,867	2,197
Canada	105	—	—
Subtotal	27,382	23,971	22,993
United States: Merchant-owned	9,934	8,626	9,124
Average number of transacting ATMs – ATM operations	37,316	32,597	32,117
United States: Managed services	4,319	3,241	2,450
United Kingdom: Managed services	18	—	—
Average number of transacting ATMs – Managed services	4,337	3,241	2,450
Total average number of transacting ATMs	41,653	35,838	34,567
Total transactions *(in thousands)*:			
ATM operations	516,564	413,780	380,744
Managed services	26,107	17,580	11,621
Total transactions	542,671	431,360	392,365
Total cash withdrawal transactions *(in thousands)*:			
ATM operations	318,615	253,890	241,928
Managed services	17,241	13,020	9,938
Total cash withdrawal transactions	335,856	266,910	251,866
Per ATM per month amounts (excludes managed services):			
Cash withdrawal transactions	712	649	628
ATM operating revenues	$ 1,310	$ 1,327	$ 1,249
Cost of ATM operating revenues (1)	866	891	864
ATM operating gross profit (1) (2)	$ 444	$ 436	$ 385
ATM operating gross profit margin (exclusive of depreciation, accretion, and amortization)	33.6%	32.8%	30.9%
ATM operating gross profit margin (inclusive of depreciation, accretion, and amortization)	23.7%	23.0%	20.2%

(1) Excludes effects of depreciation, accretion, and amortization expense of $59.3 million, $51.0 million and $51.5 million for the years ended December 31, 2011, 2010 and 2009, 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 per ATM per month and decreased our ATM operating gross profit per ATM per month by $132, $130 and $134 for the years ended December 31, 2011, 2010 and 2009, respectively.

(2) ATM operating gross profit is a measure of profitability that uses only the revenues and expenses that relate to operating the ATMs in our portfolio. Revenues and expenses relating to managed services and ATM equipment sales and other ATM-related services are not included.

Revenues

	For the Years Ended December 31,				
			% Change		% Change
	2011	2010	2010 to 2011	2009	2009 to 2010
	(In thousands, excluding percentages)				
ATM operating revenues	$ 597,219	$ 522,900	14.2%	$ 483,138	8.2%
ATM product sales and other revenues	27,357	9,178	198.1%	10,215	(10.2)%
Total revenues	$ 624,576	$ 532,078	17.4%	$ 493,353	7.8%

Year ended December 31, 2011 compared to year ended December 31, 2010

ATM operating revenues. ATM operating revenues generated during the year ended December 31, 2011 increased $74.3 million over the year ended December 31, 2010. Below is a detail, by segment, of changes in the various components of ATM operating revenues:

	2010 to 2011 Variance			
			Other	
	U.S.	U.K.	International	Total
	Increase (decrease) *(In thousands)*			
Surcharge revenue	$ 26,454	$ (3,671)	$ 5	$ 22,788
Interchange revenue	14,555	18,452	(1,763)	31,244
Bank branding and surcharge-free network revenues	10,819	—	1,295	12,114
Managed services revenues	6,479	214	—	6,693
Other revenues	1,116	—	364	1,480
Total increase (decrease) in ATM operating revenues	$ 59,423	$ 14,995	$ (99)	$ 74,319

United States. During the year ended December 31, 2011, our United States operations experienced a $59.4 million, or 14%, increase in ATM operating revenues over 2010. Of this increase, $33.4 million was attributable to the contribution of acquired entities since their respective acquisition dates. The remaining $26.0 million increase was due to a combination of growth achieved from several revenue sources, including: (1) 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 Allpoint surcharge-free network; (2) an increase in managed services revenue as a result of the expansion of these services in the past year, which resulted in the addition of approximately 900 machines operating under managed services arrangements; (3) increased surcharge revenue as a result of a slightly higher average surcharge rate and a higher machine count; and (4) increased interchange revenue as a result of higher withdrawal transactions, slightly offset by a decline in the per withdrawal interchange rate.

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

United Kingdom. Our United Kingdom operations experienced a $15.0 million, or 18%, increase in ATM operating revenues during 2011 when compared to 2010. This increase was due primarily to higher interchange revenues as a result of a 53% increase in the total number of transactions conducted on our ATMs in that market. The increased level of transactions was primarily attributable to three factors: (1) a 15% increase in the average number of transacting ATMs, which was the result of additional ATM deployments made throughout 2011 at locations of new and existing customers; (2) an 8% increase in the number of cash withdrawal transactions conducted on our free-to-use ATMs on a same-store basis; and (3) conversion of many ATMs from surcharging to free-to-use during the past year, resulting in a higher percentage of our revenues being from this machine type. Conversely, we experienced a decline in surcharge revenues generated by our United Kingdom operations as a result of same-store transaction declines and the conversion discussed above. Excluding the favorable impact of foreign currency exchange rate movements between the two years, the total increase in ATM operating revenues during 2011 would have been $11.5 million, or 14%, when compared to 2010.

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

Other International. This segment now includes the results of our newly acquired Canadian subsidiary since the date of its acquisition on October 28, 2011, and this operation contributed $0.4 million for the year ended December 31, 2011. Offsetting the increase in ATM operating revenues from our Canada operations was a decrease in ATM operating revenues from our Mexico operations, as the decrease in interchange revenue was not fully offset by the increase in bank branding and other revenues during 2011. The decrease in interchange revenue was attributable to the decrease in transaction levels as a result of regulatory change by the Central Bank of Mexico, which went into effect in May 2010, and required ATM operators to choose between receiving an interchange fee from the consumer's card issuing bank or a surcharge fee from the consumer. We elected to receive surcharge-only fees, which caused us to effectively no longer receive interchange fees after May 2010. The increase in bank branding revenues was a result of the new bank branding agreement with Banorte that was executed in the first quarter of 2011. Foreign currency exchange rate movements in Canada and Mexico had an insignificant impact on our consolidated revenues.

For additional information on the new ATM fee rules and recent trends that may impact the revenues generated by our Mexico operations, see *Recent Events – Recent Events – Mexico* above.

ATM product sales and other revenues. ATM product sales and other revenues for the year ended December 31, 2011 were significantly higher than those generated during 2010 due principally to increased equipment sales and higher value-added reseller ("VAR") program sales. Under our VAR program, we primarily sell ATMs to associate VARs who in turn resell the ATMs to various financial institutions throughout the United States in territories authorized by the equipment manufacturer. Over the past few years, financial institutions and other businesses reduced their ATM purchases in response to the weak economic climate. However, new regulations under the ADA that will come into effect in 2012 are driving the replacement of certain noncompliant ATMs and are driving the increase in our VAR sales.

Year ended December 31, 2010 compared to year ended December 31, 2009

ATM operating revenues. ATM operating revenues generated during the year ended December 31, 2010 increased $39.8 million over the year ended December 31, 2009. Below is a detail, by segment, of changes in the various components of ATM operating revenues:

	2009 to 2010 Variance			
	U.S.	**U.K.**	**Other International**	**Total**
	Increase (decrease) (In thousands)			
Surcharge revenue	$ 4,902	$ (2,940)	$ 10,362	$ 12,324
Interchange revenue	(144)	12,322	(2,813)	9,365
Bank branding and surcharge-free network revenues	13,758	—	—	13,758
Managed services revenues	2,396	—	—	2,396
Other revenues	1,641	—	278	1,919
Total increase in ATM operating revenues	$ 22,553	$ 9,382	$ 7,827	$ 39,762

United States. During the year ended December 31, 2010, our United States operations experienced a $22.6 million increase in ATM operating revenues over 2009. This increase was primarily due to a 20% 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 programs and our Allpoint surcharge-free network. Also contributing to the increase in ATM operating revenues were the surcharge rate increases that we implemented in certain retail partner locations during the latter half of 2009 and the first half of 2010. Although these surcharge rate increases resulted in an increase in surcharge revenues, the rate increases somewhat negatively impacted the level of surcharge transactions conducted on our machines, which in turn contributed to a slight decline in the total number of transactions conducted on our domestic devices when compared to the prior year. The decline in total transactions, combined with the loss of two significant customers in late 2009 and in the first half of 2010 and the recent reduction in the net interchange fees paid to ATM deployers by certain networks, caused our interchange revenues to decline slightly in the United States. Finally, managed services revenue increased as a result of our expansion of these services, which resulted in the addition of approximately 1,200 machines under managed services arrangements during 2010.

United Kingdom. Our United Kingdom operations also contributed to the higher ATM operating revenues for the year ended December 31, 2010, increasing by $9.4 million, or 13%, over 2009. This increase was primarily driven by a 37% increase in the total number of transactions conducted on our ATMs in that market. The increased level of transactions was primarily attributable to two factors: (1) a 9% increase in the average number of transacting ATMs, which was the result of additional ATM deployments made throughout 2009 and the first half of 2010 at locations of new and existing customers; and (2) a 65% increase in the number of cash withdrawal transactions conducted on our free-to-use ATMs. Conversely, we experienced a decline in surcharge transactions per pay-to-use ATM, which resulted in a decline in the amount of surcharge revenues generated by our United Kingdom operations.

Other International. The $7.8 million, or 44%, increase in ATM operating revenues generated by our Mexico operations during the year ended December 31, 2010 was mainly the result of a 30% increase in the average number of transacting ATMs associated with these operations. The new ATMs, many of which were installed during the fourth quarter of 2009 and the first quarter of 2010, contributed to an 11% increase in total transactions during 2010 compared to a year ago. As is further discussed above in *Recent Events – Recent Events – Mexico, our transaction volumes per unit were significantly impacted by the new regulations in Mexico, and while our total revenues grew over the same period in 2009, our revenues per unit declined. Also contributing to the year-over-year increase in ATM operating revenues was increased revenues per transaction from our ATMs deployed in resort locations during 2010. Finally, foreign currency exchange rate movements between the years favorably impacted the revenues earned by our Mexico business during 2010, contributing approximately 9% of the total increase.*

ATM product sales and other revenues. ATM product sales and other revenues for the year ended December 31, 2010 were lower than those generated during 2009 by $1.0 million primarily due to lower equipment sales and lower VAR program sales which was in turn reduced in response to the economic climate in which the financial institutions were operating then.

Cost of Revenues

	For the Years Ended December 31,				
			% Change		% Change
	2011	2010	2010 to 2011	2009	2009 to 2010
	(In thousands, excluding percentages)				
Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization)	$ 396,347	$ 351,490	12.8%	$ 333,907	5.3%
Cost of ATM product sales and other revenues	23,768	8,902	167.0%	10,567	(15.8)%
Total cost of revenues (exclusive of depreciation, accretion, and amortization)	$ 420,115	$ 360,392	16.6%	$ 344,474	4.6%

Year ended December 31, 2011 compared to year ended December 31, 2010

Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization). The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) incurred during the year ended December 31, 2011 increased $44.9 million from the year ended December 31, 2010. Below is a detail, by segment, of changes in the various components of the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization):

	2010 to 2011 Variance			
	U.S.	U.K.	Other International	Total
	Increase (decrease) *(In thousands)*			
Merchant commissions	$ 16,509	$ 2,702	$ 455	$ 19,666
Vault cash rental expense	2,520	(189)	(155)	2,176
Other cost of cash	5,191	3,471	(189)	8,473
Repairs and maintenance	4,301	875	(9)	5,167

Communications	1,569	348	132	2,049
Transaction processing	(1,665)	1,765	(209)	(109)
Stock-based compensation	151	—	—	151
Other expenses	3,552	3,749	(17)	7,284
Total increase in cost of ATM revenues	$ 32,128	$ 12,721	$ 8	$ 44,857

United States. During the year ended December 31, 2011, our United States operations experienced a $32.1 million increase in cost of ATM operating revenues compared to the same period in 2010. As was the case with the increase in ATM revenues explained above, the acquisitions completed in the second half of 2011 contributed to $24.4 million of the increase. The remaining $7.7 million increase was mostly due to a higher total machine count and higher transaction volumes on our domestic devices. $2.4 million of the increase included in Other expenses in the table above was related to payments made to third parties for transactions on their ATMs through our Allpoint network. The higher vault cash rental expense resulted from higher average cash balances outstanding and additional interest rate swap contracts entered into in January 2011 to further extended the terms of our interest rate hedging program through the end of 2016. These interest rate swaps serve to fix the interest rate on a portion of the monthly vault cash rental fees we pay under our domestic vault cash rental agreements. These interest rate swaps are currently at higher than current market floating interest rates; however, the fixed rates under these swap contracts extend through various periods into the future up to 2016 and serve to reduce our risk exposure in the event market rates rise over the next few years. The remainder of the costs of ATM operating revenues generally increased as a result of higher total machine count in the United States for which we provide services (including managed services). The cost increases were partially offset by a decrease in transaction processing expense due to the conversion of our ATMs located in 7-Eleven locations to our EFT processing platform from a third-party processor during 2010.

United Kingdom. Our United Kingdom operations experienced an overall increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) by $12.7 million during 2011 compared to 2010. This overall increase was due primarily to the 15% year-over-year increase in the number of average transacting ATMs associated with these operations, increased cash losses due to theft, and an increase in employee-related costs. As noted above in our discussion of revenues, the majority of our newly-deployed ATMs in the U.K. market are high transacting, free-to-use ATMs, which frequently carry increased operating costs due to the higher amounts of cash and more frequent fill rates that are required to keep them operating. As a result, we expected to see an overall increase in several of the cost of ATM operating revenue expense categories. Also contributing to the increased cost of ATM operating revenues was an increase in employee-related costs for the additional personnel to operate a second cash depot for Green Team, our United Kingdom operations' armored courier operation, which is included in Other expenses above. The foreign currency exchange rate movements between periods also significantly contributed to the overall increase in cost of ATM operating revenues, which contributed $2.7 million of the increase.

Other International. As noted above in our discussion of revenues, this segment now includes the effect of our Canadian subsidiary, which increased the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) by $0.3 million for the year ended December 31, 2011, which was offset by a decrease of $0.3 million from our Mexico operations. The decrease in Mexico was primarily due to a 25% decrease in the number of surcharge transactions conducted on our ATMs in that market, which was mainly attributable to the change in regulations and effectively lowered our merchant commission expenses compared to the prior year. The impact of exchange rate movements had an insignificant impact on our consolidated costs of revenues.

Cost of ATM product sales and other revenue. Relatively consistent with the 198.1% increase in ATM product sales and other revenues discussed above, the cost of ATM product sales and other revenues increased by 167.0% during 2011 compared to 2010 primarily due to the increased equipment and VAR program sales during the period to comply with the new ADA rules.

Year ended December 31, 2010 compared to year ended December 31, 2009

Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization). The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) incurred during the year ended December 31, 2010 increased $17.6 million from the year ended December 31, 2009. Below is the detail, by segment, of changes in the various components of the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization):

	2009 to 2010 Variance			
	U.S.	U.K.	Other International	Total

	Increase (decrease) (In thousands)			
Merchant commissions	$ 4,571	$ 2,492	$ 2,378	$ 9,441
Vault cash rental expense	2,225	1,843	624	4,692
Other cost of cash	(3,050)	3,266	2,871	3,087
Repairs and maintenance	(2,332)	356	(457)	(2,433)
Communications	(4)	236	406	638
Transaction processing	(2,624)	944	191	(1,489)
Stock-based compensation	(46)	—	—	(46)
Other expenses	1,418	1,841	434	3,693
Total increase in cost of ATM revenues	$ 158	$ 10,978	$ 6,447	$ 17,583

United States. During the year ended December 31, 2010, the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) incurred by our United States operations increased $0.2 million from the costs incurred during 2009. Although the total cost of ATM revenues did not increase significantly, the variance in the individual components of the total increased or decreased significantly depending on the nature of the expense. Merchant commissions increased by approximately 3%, which is consistent with the 3% increase in domestic surcharge transaction revenues during 2010 as our domestic merchant commissions are primarily calculated based on the surcharge revenues generated by the devices. We also incurred higher vault cash rental expense, which resulted from certain domestic vault cash rental agreements being renewed at slightly less favorable terms during the year, and additional interest rate swap contracts entered into during the latter half of 2009 and the first half of 2010.

The majority of the increased expenses were offset by declines in other cost of cash, repairs and maintenance, and transaction processing. Other cost of cash decreased due to a decline in armored courier expense, resulting from more favorable pricing terms in place with our armored service providers and fewer cash fills during the year as a result of our efforts to aggressively manage our costs. Similarly, our primary domestic maintenance service agreements were renewed on more favorable terms in 2009; however, the benefits from the improved pricing terms were somewhat offset by additional costs incurred to load certain software upgrades on a number of our ATMs during the year. Additionally, our transaction processing costs decreased due to the conversion of our ATMs located in 7-Eleven locations over to our EFT processing platform from a third-party processor.

United Kingdom. Our United Kingdom operations experienced an overall increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) of $11.0 million. This overall increase was due primarily to the 9% year-over-year increase in the number of average transacting ATMs associated with these operations. As noted above in our discussion of revenues, the majority of our newly-deployed ATMs in the U.K. market are high transacting, free-to-use ATMs, which frequently carry increased operating costs due to the higher amounts of cash and more frequent fill rates that are required to keep them operating. As a result, we expected to see an overall increase in several of the cost of ATM operating revenue expense categories. The 37% increase in total transactions during 2010 also contributed to the increase in merchant commissions during the period. Finally, contributing to the increased cost of ATM operating revenues was (1) an increase in vault cash rental expense and other costs of cash, which increased 41% on a combined basis during the period as a result of certain interest rate swap transactions that we entered into during the latter half of 2009 and became effective in January 2010, and (2) higher vault cash rental costs, which occurred as a result of slightly higher renegotiated pricing terms with our vault cash provider and as a result of higher cash management fees paid to our vault cash provider in that market. As is the case with our domestic interest rate swaps, the interest rate swaps serve to fix the interest rate on a portion of the monthly vault cash rental fees we pay under our vault cash rental agreement in the United Kingdom. While the fixed rates are higher than current market floating interest rates, they serve to reduce our risk exposure in the event market rates rise over the next few years.

Other International. Also contributing to the consolidated increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization) during 2010 compared to 2009 were the costs incurred by our Mexico operations. The higher costs in Mexico were primarily attributable to the 30% increase in the average number of transacting ATMs and the 11% increase in the total number of transactions conducted on these machines during 2010 when compared to 2009. However, we also saw a disproportionate increase in armored courier expense, which is included in the other costs of cash line item above, as a result of incremental distance-based charges to service our additional ATMs in that market and higher costs associated with servicing our U.S. dollar-dispensing ATMs in that market. During the fourth quarter of 2010, we worked with our armored courier vendors in Mexico to maximize the efficiency of their service routes and minimize these distance-based charges prospectively.

Cost of ATM product sales and other revenue. Relatively consistent with the 10.2% decrease in ATM product sales and other revenues discussed above, the cost of ATM product sales and other revenues decreased 15.8% during 2010 compared to 2009 primarily due to lower equipment and VAR program sales during the period.

Gross Profit Margin

	For the Years Ended December 31,		
	2011	**2010**	**2009**
ATM operating gross profit margin:			
Exclusive of depreciation, accretion, and amortization	33.6%	32.8%	30.9%
Inclusive of depreciation, accretion, and amortization	23.7%	23.0%	20.2%
ATM product sales and other revenues gross profit margin	13.1%	3.0%	(3.4)%

Total gross profit margin:			
Exclusive of depreciation, accretion, and amortization	32.7%	32.3%	30.2%
Inclusive of depreciation, accretion, and amortization	23.2%	22.7%	19.7%

ATM operating gross profit margin. For the year ended December 31, 2011, our ATM operating gross profit margin exclusive of depreciation, accretion, and amortization increased by 0.8 percentage points, when compared to 2010. Additionally, our ATM operating gross profit margin inclusive of depreciation, accretion, and amortization increased by 0.7 percentage points when compared to 2010. These increases were due to higher margins earned in our United States operating segment during 2011. The margin improvements in the United States were primarily attributable to the year-over-year increase in revenues from our surcharge-free offerings, bank branding, and our new managed services offerings. Offsetting this margin increase from our United States operating segment were decreases in the gross profit margins generated by our United Kingdom and Mexico operating segments.

In the United Kingdom, the gross margin decrease was primarily the result of a decrease in the withdrawal interchange rate in 2011 and the increase in cash withdrawal transactions conducted on our free-to-use ATMs, which have a lower margin but generates higher volume and the reduction in the interchange rate as set by LINK for 2011. In Mexico, gross profit margin for 2011 continued to be negatively impacted by the change in ATM fee rules adopted by the Central Bank of Mexico, which went into effect in May 2010. See *Recent Events – Recent Events – Mexico* above.

We expect that our gross margin in the near term will be relatively consistent with our 2011 results, as our 2011 acquisitions carried lower margins than that of our overall business. Additionally, interchange rate declines in the United States will tend to negatively impact margins in 2012. This margin pressure associated with the 2011 acquisitions and the interchange rate declines will largely offset margin increases we would otherwise expect to gain through organic revenue growth.

ATM product sales and other revenues gross profit margin. ATM product sales and other revenues gross profit margin during 2011 increased by 10.1 percentage points compared to 2010 due to higher sales volumes and the corresponding margins achieved on VAR sales. This is contrary to what we experienced in 2009, when we had lower margins but higher volume of ATM product sales that resulted from lowered sales prices in light of the reduced market demand for ATM product sales, which started to improve during 2010.

Selling, General, and Administrative Expenses

	For the Years Ended December 31,				
			% Change		% Change
	2011	2010	2010 to 2011	2009	2009 to 2010
	(In thousands, excluding percentages)				
Selling, general, and administrative expenses, excluding stock-based compensation	$ 47,161	$ 39,297	20.0%	$ 37,705	4.2%
Stock-based compensation expense	8,421	5,284	59.4%	3,822	38.3%
Acquisition-related expenses	4,747	—	100.0%	—	0.0%
Total selling, general, and administrative expenses	$ 60,329	$ 44,581	35.3%	$ 41,527	7.4%
Percentage of revenues:					
Selling, general, and administrative expenses, excluding stock-based compensation	7.6%	7.4%		7.6%	
Stock-based compensation expense	1.3%	1.0%		0.8%	
Acquisition-related expenses	0.8%	0.0%		0.0%	
Total selling, general, and administrative expenses	9.7%	8.4%		8.4%	

Selling, general, and administrative expenses ("SG&A expenses"), excluding stock-based compensation. For the year ended December 31, 2011, SG&A expenses, excluding stock-based compensation, increased $7.9 million compared to 2010. This increase was due to: (1) higher employee-related costs compared to the same periods last year due to increased headcount, including employees added from the acquisitions during the second half of 2011; (2) increased incentive-based compensation; (3) higher professional costs; (4) higher legal expense related to ongoing litigation and other matters; and (5) costs related to the expansion of our corporate marketing function.

For the year ended December 31, 2010, SG&A expenses, excluding stock-based compensation, increased $1.6 million compared to 2009. This increase was primarily attributable to approximately $1.0 million of costs incurred related to the preparation and filing of a shelf registration statement during the first quarter of 2010 and the completion of two secondary equity offerings during the first and third quarters of 2010, as well as overall higher employee-related costs compared to the same periods last year due to increased headcount and increased compensation costs. These increases were offset by a decrease in severance costs recognized during the year as we recognized $0.7 million in 2010 associated with our recent management reorganization, whereas we recognized $1.2 million in 2009 associated with the departure of our former Chief Executive Officer in March 2009.

Stock-based compensation. The increases in stock-based compensation during the years ended December 31, 2011 and 2010 were due to the issuance of additional shares of restricted stock and stock options during the periods. Particularly, in early 2011, we issued awards under our 2011 Long Term Incentive Plan (the "2011 LTIP"), which initially vest based on performance-based requirements followed by continued service-based vesting requirements. Although these awards were not considered to be earned and outstanding during 2011 (although included in the calculation of diluted earnings per share), we recognized compensation expense based on the ultimate awards we expected to issue in 2012 as a result of the Company's performance. For additional details on these equity awards, see *Item 8. Financial Statements and Supplementary Data, Note 3, Stock-Based Compensation*. In 2012, we expect that our stock-based compensation costs will further increase due to additional equity grants that were made throughout 2011 and additional equity grants that are planned for 2012.

Acquisition-related expenses. We incurred an additional $4.7 million of costs in 2011 associated with the acquisition of four entities (EDC, LocatorSearch, Mr. Cash, and Access to Money), which were expensed as incurred as required by the current accounting standards. These costs included professional fees, such as legal and accounting fees, incurred to execute the acquisitions, severance payments made to employees of acquired businesses, and other non-recurring costs associated with the execution and integration of the acquisitions.

Depreciation and Accretion Expense

	For the Years Ended December 31,				
	2011	2010	% Change 2010 to 2011	2009	% Change 2009 to 2010
	(In thousands, excluding percentages)				
Depreciation expense	$ 45,716	$ 40,126	13.9%	$ 37,403	7.3%
Accretion expense	2,246	2,598	(13.5)%	2,017	28.8%
Depreciation and accretion expense	$ 47,962	$ 42,724	12.3%	$ 39,420	8.4%
Percentage of revenues:					
Depreciation expense	7.3%	7.5%		7.6%	
Accretion expense	0.4%	0.5%		0.4%	
Total depreciation and accretion expense	7.7%	8.0%		8.0%	

For the year ended December 31, 2011, depreciation expense increased 13.9% when compared to 2010. This increase was primarily the result of the deployment of additional Company-owned ATMs throughout 2011, as well as the acquisition of assets completed during the year. Accretion expense decreased slightly compared to 2010 due primarily to a change in estimate during 2011. When we install our ATMs, we estimate the fair value of future retirement obligations associated with those ATMs, including the anticipated costs to deinstall, and in some cases refurbish, certain merchant locations. Accretion expense represents the increase of this liability from the original discounted net present value to the amount we ultimately expect to incur.

For the year ended December 31, 2010, both depreciation expense and accretion expense increased when compared to 2009. These increases were primarily the result of the deployment of additional Company-owned ATMs in the fourth quarter of 2009 and throughout 2010. Also contributing to the increase in accretion expense was our change in the estimated useful life of our asset retirement obligation assets. As we decreased the number of years over which our asset retirement obligation assets are being depreciated, we also made a corresponding decrease to the number of years over which the related liabilities are being accreted, which resulted in increased accretion in 2010 and 2011 compared to 2009.

Amortization Expense

	For the Years Ended December 31,				
	2011	2010	% Change	2009	% Change

			2010 to 2011		2009 to 2010
		(In thousands, excluding percentages)			
Amortization expense	$ 17,914	$ 15,471	15.8%	$ 18,916	(18.2)%
Percentage of revenues	2.9%	2.9%		3.8%	

Amortization expense is primarily comprised of the amortization of intangible assets related to merchant contracts and relationships associated with our acquisitions. The increase in amortization during 2011 as compared to 2010 was due to the addition of $52.7 million in intangible assets from the four acquisitions completed during the second half of 2011. Amortization expense decreased during 2010 as compared to 2009 as certain domestic contract intangible assets from previous acquisitions were fully amortized during 2009 and 2010.

Amortization expense during the year ended December 31, 2009 included a $1.2 million impairment charge recorded by our U.S. reporting segment related to the unamortized intangible asset associated with one of our merchant contracts. The impairment resulted from the higher-than-anticipated attrition of sites in this portfolio, stemming from the merchant's decision to divest of the majority of its domestic retail locations. Although this merchant announced its divestiture program in 2007, it was not until the fourth quarter of 2009 that the full impact of the sales and attrition was evident. As a result of the anticipated reduction in future cash flows from the portfolio, we concluded in the fourth quarter of 2009 that an impairment of the related contract intangible asset was warranted. It should be noted, however, that we received a one-time payment from this merchant in May 2009 totaling $0.8 million relating to termination fees as a result of certain divestitures made by the merchant in prior periods. At the time, we concluded that the future cash flows under the remaining portfolio of ATMs would be sufficient to recover the carrying value of the related tangible and intangible assets. Accordingly, this amount was recorded as other income in the accompanying Consolidated Statements of Operations. As such, the net amount impacting our consolidated results in 2009 totaled $0.4 million.

Loss on Disposal of Assets

	For the Years Ended December 31,				
	2011	2010	% Change 2010 to 2011	2009	% Change 2009 to 2010
	(In thousands, excluding percentages)				
Loss on disposal of assets	$ 981	$ 2,647	(62.9)%	$ 6,016	(56.0)%
Percentage of revenues	0.2%	0.5%		1.2%	

During 2011 and 2010, we recognized significantly lower losses on disposal of assets than the comparable prior years as a result of a decrease in the number of assets that we removed during 2011 compared to the past few years.

Interest Expense, net

	For the Years Ended December 31,				
	2011	2010	% Change 2010 to 2011	2009	% Change 2009 to 2010
	(In thousands, excluding percentages)				
Interest expense, net	$ 20,116	$ 26,629	(24.5)%	$ 30,133	(11.6)%
Amortization of deferred financing costs and bond discounts	993	2,029	(51.1)%	2,395	(15.3)%
Total interest expense, net	$ 21,109	$ 28,658	(26.3)%	$ 32,528	(11.9)%
Percentage of revenues	3.4%	5.4%		6.6%	

Interest expense, net. Interest expense, net, decreased during the years ended December 31, 2011 and 2010, compared to the prior years, due to the reduction in the average balances outstanding and the interest rate on our senior subordinated notes as a result of a series of transactions completed in the third quarter of 2010. Our total debt outstanding was also significantly lower for the first half of 2011 compared to the first half of the prior year; however, in July 2011, we borrowed $145.0 million under our revolving credit facility to fund the EDC acquisition and made subsequent additional borrowings to fund other acquisitions completed during the second half of 2011, which resulted in a year-over-year increase in debt outstanding over the last five months of 2011. For additional details, see *Item 8. Financial Statements and Supplementary Data, Note 10, Long-Term Debt*.

Amortization of deferred financing costs and bond discounts. The decrease in the amortization of deferred financing costs and bond discounts during 2011 was due to a decrease in the deferred financing cost balance after the write-off of these costs related to the previously outstanding senior subordinated notes and our previous $175.0 million revolving credit facility, as described below in *Write-off of Deferred Financing Costs and Bond Discounts and Redemption Costs for Early Extinguishment of Debt*. However, related to these refinancing activities, we capitalized approximately $1.7 million of costs incurred in conjunction with entering into our new revolving credit facility and approximately $3.7 million of costs incurred in conjunction with the issuance of the $200.0 million 8.25% senior subordinated notes due 2018 ("2018 Notes"), which are being amortized over the underlying term of the agreement. Additionally, because the 2018 Notes were issued at par, we no longer have amortization expense related to bond discounts. Finally, in connection with a credit facility modification during the third quarter of 2011, an additional $0.7 million was deferred which is being amortized through the new facility termination date of July 2016.

Write-off of Deferred Financing Costs and Bond Discounts and Redemption Costs for Early Extinguishment of Debt

As noted above in *Interest expense, net*, during the year ended December 31, 2010, we redeemed all $300.0 million of our previously outstanding 9.25% senior subordinated notes due 2013. In connection with the redemption of the notes, we recorded $6.9 million of pre-tax, non-cash charges to write off the remaining unamortized original issuance discounts and deferred financing costs associated with the notes and $7.2 million of pre-tax charges associated with the payments of call premiums. Additionally, during 2010, we recorded a $0.4 million pre-tax, non-cash charge to write off a portion of the remaining unamortized deferred financing costs related to our previous $175.0 million revolving credit facility. For additional information on our redemption of these notes and refinancing of our revolving credit facility, see *Item 8. Financial Statements and Supplementary Data, Note 10, Long-Term Debt.*

Income Tax (Benefit) Expense

	For the Years Ended December 31,				
	2011	2010	% Change 2010 to 2011	2009	% Change 2009 to 2010
	(In thousands, excluding percentages)				
Income tax (benefit) expense	$ (13,176)	$ (17,139)	23.1%	$ 4,245	(503.7)%
Effective tax rate	(23.1)%	(71.4)%		42.4%	

We recognized net income tax benefits during the year ended December 31, 2011, due to our tax reporting change with respect to our United Kingdom operations in the third quarter of 2011. As a result, we recorded a $37.0 million net benefit during the third quarter of 2011. During the third quarter of 2010, we released all of our domestic deferred tax asset valuation allowances based on the determination that it was more likely than not that we would be able to realize the benefits associated with our net deferred tax asset positions in the future. As a result, we now record federal and state income tax expense based on earnings in our United States segment. We will continue to maintain valuation allowances for our local net deferred tax asset positions in the United Kingdom and Mexico, as we currently believe that it is more likely than not that these benefits will not be realized. We had approximately $53.6 million of United States federal net operating loss carryforwards for federal income tax purposes as of December 31, 2011, which includes $14.9 million from acquired entities.

For further information, see *Item 8. Financial Statements and Supplementary Data, Note 18, Income Taxes*.

Non-GAAP Financial Measures

Included below are certain non-GAAP financial measures that we use to evaluate the performance of our business. We believe that the presentation of these measures and the identification of unusual or certain non-recurring adjustments and non-cash items enhance an investor's understanding of the underlying trends in our business and provide for better comparability between periods in different years. EBITDA, Adjusted EBITDA, Adjusted Net Income, and Free Cash Flow are non-GAAP financial measures provided as a complement to results prepared in accordance with U.S. GAAP and may not be comparable to similarly-titled measures reported by other companies.

Adjusted EBITDA excludes depreciation, accretion, and amortization expense as these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures, and the method by which the assets were acquired. EBITDA and Adjusted EBITDA also do not reflect acquisition-related costs and our obligations for the payment of income taxes, interest expense or other obligations such as capital expenditures. Free Cash Flow is defined as cash provided by operating activities less payments for capital expenditures, including those financed through direct debt but excluding acquisitions. The measure of Free Cash Flow does not take into consideration certain other non-discretionary cash requirements such as, for example, mandatory principal payments on portions of our long-term debt. The non-GAAP financial measures presented herein should not be considered in isolation or as a substitute for operating income, net income, cash flows from operating, investing, or financing activities, or other income or cash flow statement data prepared in accordance with U.S. GAAP.

A reconciliation of EBITDA, Adjusted EBITDA and Adjusted Net Income to Net Income Attributable to Controlling Interests, their most comparable U.S. GAAP financial measure, and a reconciliation of Free Cash Flow to cash provided by operating activities, the most comparable U.S. GAAP financial measure, are presented as follows:

Reconciliation of Net Income Attributable to Controlling Interests to EBITDA, Adjusted EBITDA, and Adjusted Net Income

	For the Years Ended December 31,		
	2011	**2010**	**2009**
	(In thousands, except share and per share amounts)		
Net income attributable to controlling interests	**$ 70,233**	**$ 40,959**	**$ 5,277**
Adjustments:			
Interest expense, net	20,116	26,629	30,133